

F0. Introduction

F0.1

(F0.1) Give a general description of and introduction to your organization.

Philip Morris International Inc. (PMI) is a leading international tobacco company working to deliver a smoke-free future and evolving its portfolio for the long-term to include products outside of the tobacco and nicotine sector. PMI has its executive headquarters in New York, U.S., its primary listing on the New York Stock Exchange (NYSE: PM), and its Operations Center in Lausanne, Switzerland. The company’s current product portfolio primarily consists of cigarettes and smoke-free products, including heat-not-burn, vapor, and oral nicotine products, which are sold in markets outside the U.S. In 2021, PMI adjusted net revenues amounted to approximately USD 31.7 billion, of which 29.1% related to the sale of smoke-free products.

PMI’s ambition to become a company with a net positive impact on society starts with researching, developing, and commercializing less harmful alternatives to cigarettes for those adults who otherwise would continue to smoke, ultimately allowing us to phase out cigarettes and become a fully smoke-free business. As a next step, we are expanding our offerings to include products that fill critical unmet needs in the wellness and healthcare space. To achieve our purpose, a radical transformation of our business is required. Sustainability stands at the core of our corporate strategy and helps address some of the challenges resulting from the transition, minimizing negative externalities associated with our products, operations, and value chain, while spurring innovation and better positioning the company for success over the long haul.

Our approach to sustainability focuses on developing strategies that can successfully address the environmental, social, and governance topics identified as a priority by our sustainability materiality assessment. From an environmental standpoint, we focus on reducing post-consumer waste from our products, tackling climate change, and preserving nature.

Engagement beyond our own operations—in particular in our supply chain—is key, as this is where a significant portion of our sustainability impacts occurs. We are working with business partners to proactively identify, manage, and reduce risks, and create shared value.

Our business has a significant, global supply chain organized in two main streams: direct spend focused on materials used in the manufacture of our finished products (e.g., tobacco leaf, packaging materials, electronic devices and accessories) and indirect spend focused on goods and services necessary to operate our business.

The description above is a summary and is qualified in its entirety by reference to the full text of PMI’s Annual Report on Form 10-K for the year ended 2021, 2022 Proxy Statement dated March 24, 2022 filed with the U.S. Securities and Exchange Commission on the same date, and the full text of PMI’s Integrated Report 2021. Certain terms, definitions and explanatory notes, as well as reconciliations of the applicable non-GAAP financial measures, are set forth in the materials referenced above.

In this submission:

- “PMI,” “we,” “us,” and “our” refer to Philip Morris International Inc. and its subsidiaries;
- Trademarks and service marks in this submission are the registered property of, or licensed by, the subsidiaries of PMI and are italicized;
- Aspirational targets and goals set forth in this submission do not constitute financial projections, and achievement of future results is subject to risks, uncertainties, and inaccurate assumptions, as outlined in our forward-looking and cautionary statements on page 252 of PMI Integrated Report 2021;
- Materiality: In this submission and in related communications, the terms “materiality,” “material” and similar terms, when used in the context of economic, environmental, and social topics, are defined in the referenced sustainability standards, and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the US Securities and Exchange Commission.
- Unless otherwise indicated, the scope of the data in this submission covers our operations worldwide for the full calendar year 2021 or reflects the status as of December 31, 2021. Where not specified, data come from PMI financials, non-financials, or estimates. Unless explicitly stated, the data and information in this submission do not incorporate wellness and healthcare acquisitions made by PMI during 2021 of Fertin Pharma A/S, Vectura Group plc., and OtiTopic, Inc., which together represented 0.3 percent of PMI’s total reported net revenues in 2021.

F0.2

(F0.2) State the start and end date of the year for which you are reporting data.

	Start Date	End Date
Reporting year	January 1 2021	December 31 2021

F0.3

(F0.3) Select the currency used for all financial information disclosed throughout your response.

USD

F0.4

(F0.4) Select the forest risk commodity(ies) that you are, or are not, disclosing on (including any that are sources for your processed ingredients or manufactured goods); and for each select the stages of the supply chain that best represents your organization's area of operation.

	Commodity disclosure	Stage of the value chain	Explanation if not disclosing
Timber products	Disclosing	Manufacturing	<Not Applicable>
Palm oil	Not disclosing	Manufacturing	PMI sources roughly 6,700 metric tons of vegetal glycerin derived from the production of biodiesel using palm oil as feedstock. The palm oil needed to produce this amount of vegetal glycerin is less than 0.01% of global palm oil production. According to PMI's deforestation risk assessment if PMI's market share of the commodity is lower than 2% and the commodity is sourced on a small scale where the overall impact on deforestation is low then the commodity does not represent a material risk of deforestation. Results from PMI's deforestation risk assessment within the value chain indicated that palm oil does not represent a material risk of deforestation for PMI due to the very low amount of palm oil that goes into PMI products. Palm oil based or containing glycerin represents 1.75% of the total Direct Material weight [tons] sourced by PMI based on agricultural raw material. Finally, palm oil-based glycerine is widely sourced from fully or partly RSPO certified suppliers, lowering again the risk of deforestation.
Cattle products	This commodity is not produced, sourced or used by our organization	<Not Applicable>	<Not Applicable>
Soy	Not disclosing	Manufacturing	PMI sources around 1500 metric tons of vegetal glycerin derived from the production of biodiesel using soy as feedstock. The soy needed to produce this amount of vegetal glycerin is less than 0.0004% of global soy production. According to PMI's deforestation risk assessment if PMI's market share of the commodity is lower than 2% and the commodity is sourced on a small scale where the overall impact on deforestation is low then the commodity does not represent a material risk of deforestation. Results from PMI's deforestation risk assessment within the value chain indicated that soy does not represent a material risk of deforestation for PMI due to the very low amount of soy that goes into PMI products: Soy oil based or containing glycerin represents close to 0% of the total Direct Material weight [tons] sourced by PMI based on agricultural raw material.
Other - Rubber	This commodity is not produced, sourced or used by our organization	<Not Applicable>	<Not Applicable>
Other - Cocoa	Not disclosing	Manufacturing	PMI sources roughly 270 metric tons of cocoa products for flavor production. This amount compared with the global production of cocoa stands at about 0.006%, a very low volume. According to PMI's deforestation risk assessment if PMI's market share of the commodity is lower than 2% and the commodity is sourced on a small scale where the overall impact on deforestation is low then the commodity does not represent a material risk of deforestation. Cocoa powder represents close to 0% of the total Direct Material weight [tons] sourced by PMI based on agricultural raw material and above 95% of the cocoa volume is sourced from companies holding cocoa sustainability certifications.
Other - Coffee	This commodity is not produced, sourced or used by our organization	<Not Applicable>	<Not Applicable>

F0.5

(F0.5) Are there any parts of your direct operations or supply chain that are not included in your disclosure?

Yes

F0.5a

(F0.5a) Identify the parts of your direct operations or supply chain that are not included in your disclosure.

Value chain stage	Exclusion	Description of exclusion	Potential for forests-related risk	Please explain
Direct operations	Business activity	The data and information in this submission do not incorporate wellness and healthcare acquisitions made by PMI during 2021 of Fertin Pharma A/S, Vectura Group plc., and OtiTopic, Inc., which together represented 0.3 percent of PMI's total reported net revenues in 2021. PMI anticipates this data to be fully included in our reporting by 2024.	Potential for forests-related risk but not evaluated	The data and information in this submission do not incorporate wellness and healthcare acquisitions made by PMI during 2021 of Fertin Pharma A/S, Vectura Group plc., and OtiTopic, Inc., which together represented 0.3 percent of PMI's total reported net revenues in 2021. PMI anticipates this data to be fully included in our reporting by 2024.

F0.6

(F0.6) Does your organization have an ISIN code or another unique identifier (e.g., Ticker, CUSIP, etc.?)

Indicate whether you are able to provide a unique identifier for your organization	Provide your unique identifier
Yes, an ISIN code	7181721090

F1. Current state

(F1.1) How does your organization produce, use or sell your disclosed commodity(ies)?**Timber products****Activity**

Using as input into manufacturing process for power generation
Using as input into product manufacturing
Distributing/packaging

Form of commodity

Paper
Boards, plywood, engineered wood
Primary packaging
Secondary packaging
Tertiary packaging
Cellulose-based textile fiber
Wood-based bioenergy
Other, please specify (Fine paper)

Source

Smallholders
Multiple contracted producers
Contracted suppliers (manufacturers)

Country/Area of origin

Argentina
Australia
Austria
Belgium
Bosnia & Herzegovina
Brazil
Canada
Chile
China
Croatia
Czechia
Denmark
Estonia
Eswatini
Finland
France
Germany
Hungary
Indonesia
Italy
Japan
Latvia
Lithuania
Luxembourg
Malawi
Mozambique
Netherlands
New Zealand
Norway
Pakistan
Philippines
Poland
Portugal
Russian Federation
Slovakia
Slovenia
Spain
Sweden
Switzerland
Thailand
Ukraine
United Kingdom of Great Britain and Northern Ireland
United States of America
Uruguay

% of procurement spend

6-10%

Comment

The percentage is calculated based on the total supply chain spend which includes direct and indirect materials and services, technical procurement, smoke-free devices, R&D and Leaf Procurement. The countries of origin listed are the countries from where the wood-based materials are sourced from, either as wood fuels or as paper and pulp-based products for packaging materials. Both board and paper used for packaging together account for 2.5% of the total supply chain spend described above. Fine papers are specialty papers that are used exclusively for tobacco products and account for around 2.4% of the total supply chain spend described above. Acetate tow used in our filters, made out of acetate cellulose, and accounts for around 3.2% of the total supply chain spend described above. Secondary packaging accounts only to less than 1% of the total supply chain spend. The spend with wood-based fuels used in the tobacco curing process for the Virginia Flue-Cured tobacco (FCV) purchased in 2021 is estimated at less than 1% of the total supply chain spend described above, summing up to around 10%. The disclosure is organized using the same categories (i.e., board and paper, fine papers, acetate tow, secondary packaging and wood-based fuels) which PMI follows to manage the supply chain of timber products. The same categories were used in the deforestation risk assessment of PMI's value chain, which has been the basis for setting priorities for further managing deforestation risks. Therefore, PMI has decided to use the same categories in its disclosure. This share is based on the total supply chain spend as described above.

F1.2

(F1.2) Indicate the percentage of your organization's revenue that was dependent on your disclosed forest risk commodity(ies) in the reporting year.

	% of revenue dependent on commodity	Comment
Timber products	100%	100% of PMI heated tobacco units, cigarettes and other nicotine-containing products require timber derivative products. Additionally, PMI uses board and paper for packaging of the majority of PMI's products.
Palm oil	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

F1.5

(F1.5) Does your organization collect production and/or consumption data for your disclosed commodity(ies)?

	Data availability/Disclosure
Timber products	Consumption data available, disclosing
Palm oil	<Not Applicable>
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other - Cocoa	<Not Applicable>
Other - Coffee	<Not Applicable>

F1.5a

(F1.5a) Disclose your production and/or consumption figure, and the percentage of commodity volumes verified as deforestation- and/or conversion-free.

Forest risk commodity

Timber products

Data type

Consumption data

Commodity production/ consumption volume

1040127

Metric for commodity production/ consumption volume

Metric tons

Data coverage

Full commodity production/consumption

Have any of your reported commodity volumes been verified as deforestation- and/or conversion-free?

Yes

% of reported volume verified as deforestation- and/or conversion-free

99

Please explain

PMI conducts periodic risk assessments on deforestation, highlighting that tobacco and paper and pulp-based supply chains represent a risk of forest loss. In tobacco supply chain, deforestation risks are indirect and related to wood fuel provision for curing Virginia flue-cured tobacco (FCV), land use change due to agriculture expansion, and use of timber for burley tobacco barn construction. Agriculture expansion and construction materials-related risks are however very limited for the following 2 main reasons: i) PMI tobacco contracted volumes are decreasing year-on-year as we increase our share of smoke-free products in our product portfolio (the production of smoke-free products needs less tobacco making the conversion of natural ecosystem to tobacco farms unlikely); and ii) mitigation activities implemented within our sustainability strategy have resulted in a minimal exposure to deforestation risks related to barn construction materials. In 2021 within our assurance program on forest protection, the external audit on tobacco curing fuels carried out on purchased (FCV) tobacco in line with our Zero Deforestation Manifesto confirmed that 100% of in scope PMI FCV tobacco is purchased at zero risk of gross deforestation and 37% of it is compliant with zero net deforestation criteria. Additionally, we regularly assess deforestation risk in our tobacco supply chain, using Global Forest Watch digital maps with in-depth tailored assessments to confirm assumptions using primary data from satellite imagery from Sentinel 2 and European Space Agency (ESA) land cover maps.

For our paper and pulp-based products, in 2021 we designed a risk assessment that embeds the criteria of the National Risk Assessment of the Forest Stewardship Council (FSC). We selected 17 criteria relevant to our supply chain and applied them to the list of PMI sourcing countries. We designed an assurance protocol covering all PMI sourcing countries with particular focus on the high-risk origins where we plan to deploy on-the-ground audits, as needed. Similar to the approach in PMI's tobacco supply chain, the intention is to leverage on satellite monitoring. In 2021, we monitored suppliers' compliance to ZDM based on fiber certification (FSC, PEFC and SFI) and as a result of this engagement, 99% of our paper and pulp-based products are covered by Chain of Custody certifications.

F1.5b

(F1.5b) For your disclosed commodity(ies), indicate the percentage of the production/consumption volume sourced by national and/or sub-national jurisdiction of origin.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Santa Catarina)

% of total production/consumption volume

6.87

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Santa Catarina refers to firewood and the volume is entirely covered by the assessment.

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Parana)

% of total production/consumption volume

6.83

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information and the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Parana refers to firewood and the volume is entirely covered by the assessment.

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Rio Grande do Sul)

% of total production/consumption volume

6.78

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Rio Grande do Sul refers to firewood and the volume is entirely covered by the assessment.

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Bahia)

% of total production/consumption volume

4.99

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Bahia refers to biomass from wood fiber and the volume is entirely covered by the assessment.

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Mato Grosso do Sul)

% of total production/consumption volume

0.88

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Minas Gerais)

% of total production/consumption volume

0.86

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Sao Paulo)

% of total production/consumption volume

0.76

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Espirito Santo)

% of total production/consumption volume

0.03

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Amapa)

% of total production/consumption volume

0.01

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Mozambique

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Zambezia)

% of total production/consumption volume

4.45

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Zambezia refers to firewood and the volume is entirely covered by the assessment. PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high-level global deforestation assessment. A deforestation risk map was developed for Mozambique. As an input for the development of the deforestation risk map, PMI requires tobacco suppliers to provide the exact location of their contracted farmers to create the map. Additionally, PMI has also identified the distance that contracted tobacco farmers travel to source firewood. Therefore, PMI can identify the municipality where the wood fuel is sourced from.

Forest risk commodity

Timber products

Country/Area of origin

Philippines

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Ilocos Sur)

% of total production/consumption volume

2.4

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Ilocos Sur refers to firewood and the volume is entirely covered by the assessment.

Forest risk commodity

Timber products

Country/Area of origin

Philippines

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Ilocos Norte)

% of total production/consumption volume

0.46

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Ilocos Norte refers to firewood and the volume is entirely covered by the assessment.

Forest risk commodity

Timber products

Country/Area of origin

Indonesia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Jambi)

% of total production/consumption volume

0.75

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Indonesia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Kalimantan Tengah)

% of total production/consumption volume

0.26

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Argentina

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Buenos Aires)

% of total production/consumption volume

0.45

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Argentina

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Salta)

% of total production/consumption volume

0.2

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Salta refers to firewood and the volume is entirely covered by the assessment. PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high-level global deforestation assessment. A deforestation risk map was developed for Argentina. As an input for the development of the deforestation risk map, PMI requires tobacco suppliers to provide the exact location of their contracted farmers to create the map. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood through the development of local forest risk maps with the support of an external consultant. Therefore, PMI can identify the municipality where the wood fuel is sourced from.

Forest risk commodity

Timber products

Country/Area of origin

Argentina

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Jujuy)

% of total production/consumption volume

0.15

Please explain

In 2021 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable tobacco leaf curing fuel. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall, the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. The curing fuel originated from Jujuy refers to firewood and the volume is entirely covered by the assessment. PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high-level global deforestation assessment. A deforestation risk map was developed for Argentina. As an input for the development of the deforestation risk map, PMI requires tobacco suppliers to provide the exact location of their contracted farmers to create the map. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI can identify the municipality where the wood fuel is sourced from.

Forest risk commodity

Timber products

Country/Area of origin

Argentina

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Corrientes)

% of total production/consumption volume

0.02

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Argentina

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Entre Rios)

% of total production/consumption volume

0.01

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Australia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Victoria)

% of total production/consumption volume

0.42

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Thailand

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Kanchanaburi)

% of total production/consumption volume

0.16

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI.

Forest risk commodity

Timber products

Country/Area of origin

Any other countries/areas

State or equivalent jurisdiction

<Not Applicable>

% of total production/consumption volume

61.97

Please explain

The above-mentioned volume refers to the sum of wood fuels for tobacco curing and paper and pulp-based direct materials sourced in 2021 which did not originate from forest risk countries as per CDP Guidance (Austria, Belgium, Bosnia and Herzegovina, Canada, Chile, China, Croatia, Czechia, Denmark, Estonia, Eswatini, Finland, France, Germany, Hungary, Italy, Japan, Latvia, Lithuania, Luxemburg, Malawi, Netherlands, New Zealand, Norway, Pakistan, Poland, Portugal, Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, United Kingdom, Uruguay, U.S.A.). In 2021 PMI has continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel in the markets from where we source Virginia Flue-Cured. As part of this monitoring framework, tobacco suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework (MF) has been verified by a third party since 2018 and from the external verification conducted in 2021, 22 out of 24 tobacco suppliers that were assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices to MF compliance requirements. Overall the audit results recognize compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021. Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on year 2021 actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered) for the entire volume delivered to PMI. Even though there are countries not identified as a high-risk country in our risk analysis, suppliers were still requested to disclose at a level of detail beyond country level.

Forest risk commodity

Timber products

Country/Area of origin

Unknown origin

State or equivalent jurisdiction

<Not Applicable>

% of total production/consumption volume

0.29

Please explain

Despite our efforts to engage with our paper and pulp-based direct material suppliers to provide quantified traceability data, we have faced reluctance to disclose such level of information from some players of specific paper and pulp-based products industries. Furthermore, some major partners of ours have explained that such information is proprietary and refer to trade secrets related to the products they manufacture. The tree species they use in the recipe of their products is an element that distinguishes acetate tow grades and qualities from their competitors. Hence, for antitrust reasons, they feel they would rather not disclose data related to countries of origin as well as the proportional quantities in use. The remaining 0.29% of our total consumption volume that is not traceable up to the State level represents a very minimal volume, and we

continue the collaboration and engagement with paper and pulp-based suppliers to fully achieve 100% traceability at State level.

F1.6

(F1.6) Has your organization experienced any detrimental forests-related impacts?

Yes

F1.6a

(F1.6a) Describe the forests-related detrimental impacts experienced by your organization, your response, and the total financial impact.

Forest risk commodity

Timber products

Impact driver type

Physical

Primary impact driver

Forest fires

Primary impact

Supply chain disruption

Description of impact

With climate change causing weather patterns across the globe to change dramatically, local negative impacts are increasingly evident. The occurrence of forest fires during 2021 is still alarming, particularly in countries where we source tobacco. The losses in forest cover, primary but also natural managed, contribute to land use change adding to the pressure on the demand for sustainable wood-based materials. The curing of Virginia Flue-Cured tobacco (FCV) is a process highly dependent on fuels, for which wood-based fuels are commonly used (75% of the FCV sourced by PMI in 2021 was cured with wood-based fuels). For example, 100% of the FCV volume sourced in 2021 from Brazil was cured with firewood and woodchips coming from sustainable natural managed or sustainable plantation forests. In Brazil alone an estimated 1.55M hectares of primary forest were lost during 2021, with fires playing a large role in the destruction of natural ecosystems. Due to an increase in forest cover loss, the availability of sustainable wood products from secondary forests is impacted, generating knock-on effects in the supply of sustainable and traceable firewood and wood-based fuels for tobacco curing that need to be in line with PMI's requirements. The impacts experienced so far have not been substantive according to the company's definition of financial and strategic substantive impact (threshold of \$5M). However, PMI continues to monitor them as they could potentially become more substantial.

Primary response

Tighter supplier performance standards

Total financial impact

2600000

Description of response

PMI involves multiple int/ext stakeholders, with its senior management (e.g., our SVP Operations) and sustainability teams to create policies, procedures and targets to achieve full traceability and sustainability of wood fuels for tobacco curing. We work with tobacco suppliers via the Monitoring Framework (MF) for Sustainable Curing Fuels to be complied annually. PMI's MF was verified in 2021 by a third party with 22 out of 24 tobacco suppliers achieving 100% compliance with MF (remaining 2 suppliers were considered immaterial from a deforestation risk perspective by the MF program auditor, in addition to being new suppliers in 2021, they were engaged to align practices to comply with requirements). Overall audit results recognize compliance with MF for Virginia flue cured tobacco volume purchased by PMI in 2021. Outcomes incl. development of PMI's Zero Deforestation Manifesto, updates on deforestation risk assessment, and country specific programs to tackle deforestation. E.g., in Brazil, an assessment of forest management relevant to local wood-based fuel supply was done in 2021. The results were used by suppliers to comply with the requirements of the MF. The indicated financial impact (\$2.6M) refers to the pro-rated annual budget, applying the Virginia flue cured tobacco volume for 2021 to the Good Agricultural Practices Program budget, which includes initiatives to address deforestation issues in our tobacco supply chain and costs to implement and verify the MF.

Forest risk commodity

Timber products

Impact driver type

Reputational and markets

Primary impact driver

Uncertainty about product origin and/or legality

Primary impact

Brand damage

Description of impact

PMI sources tobacco from some markets subject to deforestation risk, leading to the implementation of safeguard activities to tackle potential environmental, legal and reputational issues. This is the case for PMI's sourcing countries like Brazil and Indonesia, where deforestation continues to be an issue threatening local populations and natural ecosystems. Failing to address deforestation and to secure sustainable, deforestation-free raw materials from at risk countries could prevent PMI from achieving its Zero Deforestation Manifesto (ZDM) targets and potentially become a reputational damage to the company. Attention from public and international organizations on environmental impacts from tobacco industry continued to increase. Land use change and associated impacts on ecosystem services were particularly relevant, e.g., as published in 2021, in a report by the World Resource Institute. Even though PMI has significantly increased traceability of its paper and pulp-based materials, there is a marginal share that remains uncertain (0.29%). PMI prioritizes engagement with these suppliers to ensure their products are in line with PMI's ZDM requirements. The indicated financial impact (\$2.6M) refers to the pro-rated annual budget, applying the Virginia flue cured tobacco volume for 2021 to the Good Agricultural Practices Program budget, which includes initiatives to address deforestation issues in our tobacco supply chain and costs to implement and verify the MF.

Primary response

Greater traceability of forest-risk commodities

Total financial impact

2600000

Description of response

PMI is responding to this issue by involving multiple stakeholders within and beyond the company. Within the company, PMI has involved its senior management (for example, our Senior Vice President Operations) and sustainability teams for the creation of policies, procedures and targets to achieve zero deforestation supply chains. As part of this effort, PMI set a target to source 100% of the wood fuel for tobacco curing as traceable and sustainable which was audited by a 3rd party in 2021. Within PMI's supply chains, the company is working with tobacco suppliers through the application of the Monitoring Framework (MF) for Sustainable Curing Fuels that all tobacco suppliers should comply with. Outcomes to date include the development and implementation of PMI's Zero Deforestation Manifesto (which led to sourcing of 99% sustainable wood-based fuels for tobacco curing in 2021), the development of a deforestation risk assessment, and country specific programs to tackle deforestation. The indicated financial impact (\$2.6M) refers to the pro-rated annual budget, applying the Virginia flue cured tobacco volume for 2021 to the Good Agricultural Practices Program budget, which includes initiatives to address deforestation issues in our tobacco supply chain and costs to implement and verify the MF.

F1.7

(F1.7) Indicate whether you have assessed the deforestation or conversion footprint for your disclosed commodities over the past 5 years, or since a specified cutoff date, and provide details.

Forest risk commodity

Timber products

Have you monitored or estimated your deforestation/conversion footprint?

Yes, we monitor deforestation/conversion footprint in our supply chain

Coverage

Full consumption volume

Reporting deforestation/conversion since a specified cutoff date or during the last five years?

Since a specified cutoff date, please specify year (2019)

Known or estimated deforestation/ conversion footprint (hectares)

823

Describe methods and data sources used to monitor or estimate deforestation/ conversion footprint

We have been deploying annually our Monitoring Framework (MF) for Sustainable Curing Fuels across our entire tobacco flue-cured supply chain; the framework requires traceability of firewood to ensure it originates from sustainable sources. We require that our tobacco suppliers and farmers are self-sufficient in supplying wood for curing. In 2021, we fully embedded the updated requirements and ambitions of our Zero Deforestation Manifesto in our MF, and we communicated these updates to our tobacco suppliers through a set of tailored guidelines. We use our MF to systematically monitor the sustainability of all fuel types used in our tobacco supply chain, which includes a requirement to maintain a full chain of custody for the firewood used in the curing process. Data gathered through our MF are verified by a third party. In 2021, all suppliers of flue-cured tobacco were audited, either with a desktop or on-site audit, across the countries where we source this type of tobacco. We also work with our tobacco suppliers to compensate areas where past deforestation might have occurred due to the use of unsustainable firewood as curing fuel since the 2019 cut-off date.

Since 2020, we have used geospatial analysis performed with Global Forest Watch (GFW) to digitally map forests in our tobacco-growing areas.

We have added in-depth assessments with primary input data from satellite imagery coming from Sentinel 2 and European Space Agency (ESA) land cover maps. For the granular analysis of attributes beyond the scope of GFW, we have partnered with Remote Sensing Solutions, a Germany-based specialist organization that uses remote sensing to offer solutions in land use classification and land use change at minimum mapping unit of 0.2 hectares. Our spatial assessments cover all tobacco types and all suppliers from which we source across over 40 tobacco-growing areas in 21 countries. We use geographic information system data to pinpoint the farming areas where the tobacco we purchase is grown and then apply a 15-kilometer buffer to each site to account for the potential impact of indirect land use change outside the tobacco cultivation areas. We call this extended zone the tobacco-growing area (TGA). Globally, with our geospatial assessment, we monitor deforestation risk on around 57M hectares of land. This allows us to focus our on-site audits and activities on those areas where potential risks of deforestation are detected.

F2. Procedures

F2.1

(F2.1) Does your organization undertake a forests-related risk assessment?

Yes, forests-related risks are assessed

F2.1a

(F2.1a) Select the options that best describe your procedures for identifying and assessing forests-related risks.

Timber products

Value chain stage

Direct operations
Supply chain

Coverage

Full

Risk assessment procedure

Assessed as part of other company-wide risk assessment system

Frequency of assessment

Annually

How far into the future are risks considered?

> 6 years

Tools and methods used

Internal company methods
External consultants
Global Forest Watch Pro
National specific tools and databases

Issues considered

Availability of forest risk commodities
Quality of forests risk commodities
Impact of activity on the status of ecosystems and habitats
Regulation
Climate change
Impact on water security
Tariffs or price increases
Loss of markets
Leakage markets
Brand damage related to forests risk commodities
Corruption
Social impacts

Stakeholders considered

Customers
Employees
Investors
Local communities
NGOs
Other forest risk commodity users/producers at a local level
Regulators
Suppliers

Please explain

Assessment of PMI's potential exposure to deforestation risk is done via deforestation risk assessment covering entire value chain by combining external tools and methodologies, geospatial analysis and national databases to identify potential risk areas. Through the annual risk assessment, we prioritize materials via 2 indicators: global deforestation impact of the material, and PMI's sourcing origins, weighted by PMI's market share per material

Since 2020, we use geospatial analysis performed with Global Forest Watch to pinpoint farming areas where the tobacco we purchase is grown and apply a 15km buffer to each site to account the potential impact of indirect land use change outside the tobacco cultivation areas. This allows to focus our on-site audits and activities where potential deforestation risks are detected.

For our paper and pulp-based products, we designed a risk assessment in 2021 that embeds the criteria of the National Risk Assessment of Forest Stewardship Council. We selected 17 criteria relevant to our paper and pulp-based supply chain and applied them to the list of countries from which we source. Results from this assessment are used to inform PMI's sourcing strategy and to identify those suppliers that require additional engagement to mitigate risks potentially linked to deforestation. All our business partners must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to the RSP engaging with them via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains.

PMI's deforestation risk assessment has been effective to identify relevant risks for PMI's operations, such as availability of timber to ensure PMI's future ability to manufacture smoke-free and cigarette products and ensure availability of wood-based fuel for tobacco curing. The assessment considers actions by tobacco suppliers to ensure the availability of sustainable wood fuel now and in the long term, applying the indicators and metrics of PMI's Monitoring Framework for Sustainable Leaf Curing Fuels that include, for example, traceability at the source and sustainable management of woodlots.

F2.2

(F2.2) For each of your disclosed commodity(ies), has your organization mapped its value chains?

	Value chain mapping	Primary reason for not mapping your value chain	Explain why your organization does not map its value chain and outline any plans to introduce it
Timber products	Yes, we have mapped the entire value chain	<Not Applicable>	<Not Applicable>
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>

F2.2a

(F2.2a) Provide details of your organization's value chain mapping for its disclosed commodity(ies).

Forest risk commodity

Timber products

Scope of value chain mapping

- Own operations
- Tier 1 suppliers
- Tier 2 suppliers
- Smallholders
- Customers

% of total suppliers covered within selected tier(s)

99

Description of mapping process and coverage

To map wood use in our tobacco supply chain, we work with tobacco suppliers through the application of PMI's Monitoring Framework (MF) for Sustainable Curing Fuels to ensure full traceability of wood-based material used for curing.

Wood-based curing fuel volumes are related to tobacco volume purchases and reported on a digital platform that includes details linking suppliers with wood origin, proof of sustainability and calculated consumption factors to assess the efficiency in resource use.

For our paper and pulp-based products, all volumes are monitored through a PMI proprietary platform covering 100% of Tier 1 suppliers and 100% of Tier 2 Board & Paper suppliers. PMI requests suppliers to provide wood fiber traceability data all the way to the point of felling where possible. Our paper and pulp-based material platform collects information on volumes, mill location, feedstock supplier name, geographic information about wood fiber sourcing, type of certification where available. This information is at the base of the assurance process with which we assess suppliers' compliance to ZDM.

Your own production and primary processing sites: attach a list of facility names and locations (optional)

Your suppliers' production and primary processing sites: attach a list of names and locations (optional)

F3. Risks and opportunities

F3.1

(F3.1) Have you identified any inherent forests-related risks with the potential to have a substantive financial or strategic impact on your business?

	Risk identified?
Timber products	Yes
Palm oil	<Not Applicable>
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other - Cocoa	<Not Applicable>
Other - Coffee	<Not Applicable>

F3.1a

(F3.1a) How does your organization define substantive financial or strategic impact on your business?

PMI evaluates a "substantive impact" (e.g., financial or strategic impact) based on a variety of factors and quantitative indicators including but not limited to the potential impact on financial performance as well as other strategic factors that may affect PMI's efforts and/or delivery towards a smoke-free future and ultimately replace cigarettes with smoke-free products to the benefit of adults who would otherwise continue to smoke, society, the company and its shareholders. The impacts reported as substantive strategic or financial impacts are defined as those identified and prioritized by management in our value chain, through key enterprise risks based on four risk dimensions: the impact a risk could have on the organization if it occurs, the likelihood a risk will occur, the velocity with which a risk would affect the organization if it occurs, and the interconnectivity of a risk with other risks, that exceed defined thresholds at the corporate level.

As part of the Company's annual Integrated Risk Assessment (IRA) process we have conducted a Climate Change Risk Assessment to evaluate and understand the impact of climate change on PMI business and a Deforestation Global Risk Assessment. When assessing risks related to Climate Change and Deforestation, we consider long term horizons (2030 and 2040 scenarios), multiple climate related indicators aligned with forest-related indicators, and impact drivers including but not limited to climate change and deforestation events that may:

- influence or impact our operations (e.g.: raw material sourcing, factories, finish goods distribution);
- affect a large number of areas where we source tobacco and/or other raw materials, impacting the continuity of supply for years, and consequently driving related cost up;
- trigger a competition in resources demand,
- natural disaster, water scarcity, change in weather pattern and extreme weather events impacting the availability of raw materials.

Between 2018 and 2019 PMI performed a climate change risk and opportunity assessment following the Taskforce on Climate-Related Financial Disclosures (TCFD) methodology. This allowed the evaluation of transition risks in addition to the physical ones considering impact drivers such as cost, asset efficiency and reputation.

As part of our IRA process, we have put in place an extensive risk control program by which to assess the physical risks of climate change. Locations with values exceeding \$30M range are surveyed by engineers from our property insurer, who provide recommendations to us on the magnitude of environmental risks and the cost of management. Recommendations for risk management are given if the expected reduction in the financial impact of the risk exceeds the cost to comply by a factor of 10 or more. Internally, we focus on recommendations above the \$50M range as management of identified risks can involve substantial internal capital investment and disruption to operations including our supply chain.

In 2020+ risk forecasting terms, we assumed as substantive impacts those in excess of \$5M or a raw material impact in excess of 1000 metric tons of tobacco leaves. This definition is applicable to PMI's agricultural supply chain. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation.

F3.1b

(F3.1b) For your disclosed forest risk commodity(ies), provide details of risks identified with the potential to have a substantive financial or strategic impact on your business, and your response to those risks.

Forest risk commodity

Timber products

Type of risk

Reputational and markets

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased commodity prices

Primary potential impact

Reduction or disruption in production capacity

Company-specific description

Wood-based materials are key materials to produce and market PMI products. For example, wood-based fuels are used for tobacco curing, while paper and pulp-based products are necessary to produce cigarettes and heated tobacco units and are also used in packaging. Some geographies where PMI purchases Virginia flue-cured tobacco (FCV) are highly dependent on wood fuel for the curing process and account for a significant portion of the overall curing fuel consumption. This is the case for the FCV sourced in 2021 by PMI in Brazil and Mozambique and cured solely with wood fuel that meets PMI's sustainability criteria even if both countries are defined as forest risk countries. Increased ecosystem vulnerability fueled by additional deforestation could decrease the availability of wood-based materials in the future. This can impact PMI's ability to manufacture cost-competitive products if firewood for tobacco curing or paper and pulp-based products such as fine papers or cellulose acetate tow needed for the manufacture of PMI's products become more expensive. Such increase in our production costs might directly affect our revenue or even our competitiveness if we would increase the price of our products due to the monetization of externalities such as the availability of sustainable firewood.

Timeframe

>6 years

Magnitude of potential impact

Medium-low

Likelihood

More likely than not

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

90000000

Potential financial impact figure - minimum (currency)

<Not Applicable>

Potential financial impact figure - maximum (currency)

<Not Applicable>

Explanation of financial

In our 2021 risk forecasting, we assumed as substantive risks those with a potential impact in excess of \$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves in our tobacco supply chain. Since 2015, we have been expanding our forest program by first assessing current and future forest-related risks, availability of forest resources, and impact on deforestation. To estimate financial impacts from this risk, PMI used public data sources on typical cost shares for firewood and fossil fuels in agro-commodities and estimated potential price increments resulting from supply chain disruptions due to increased ecosystem vulnerability. PMI assessed that poor enforcement of regulation could lead to increased ecosystem vulnerability impacting farmers' production cost due to an estimated 16% price increase in the acquisition of sustainable firewood, increasing PMI's procurement costs above our metric for substantive financial impact. PMI estimated financial impacts by using the modelled increments in firewood and diesel costs, along with total volumes of purchased tobacco and the ratio of volume being cured using fossil fuels as well as renewable fuel sources on an annual basis. It was then assumed that PMI procurement expenditure on tobacco would remain constant in a business-as-usual scenario and increase by the same rate as the modelled increment price under climate change scenarios (16%), resulting in a financial impact estimation of \$90M.

Primary response to risk

Engagement with suppliers

Description of response

In 2002 PMI launched its Good Agricultural Practices (GAP) program, defining the standards that must be met by all tobacco suppliers. The Monitoring Framework (MF) for Sustainable Leaf Curing Fuels was developed later in 2016 and it is mandatory that Virginia flue-cured (FCV) tobacco suppliers comply to its requirements on an annual basis. PMI's MF was verified in 2021 by a third-party auditor with 22 out of 24 tobacco suppliers achieving 100% compliance with MF (remaining 2 suppliers were considered immaterial from a deforestation risk perspective by the MF program auditor, in addition to being new suppliers in 2021, they were engaged to align practices to comply with requirements). Overall audit results recognize compliance with MF for FCV tobacco volume purchased by PMI in 2021. The implementation of GAP and MF is expected to address risk of increased ecosystem vulnerability by providing an understanding of the deforestation risk associated with tobacco curing through the development of forest risks maps. Tobacco suppliers need to have in place a forest risk mitigation plan to manage the identified deforestation risks. The MF has been an effective mechanism to identify and prevent any potential risks associated with disruptions in the supply chain due to the availability of forest risk maps and deployment of mitigating action plans associated with the identified forest risk. In 2021 PMI was able to track 99% of wood-based fuels, ensuring that it is sustainably sourced.

Cost of response

5300000

Explanation of cost of response

The cost of response covers the annual investment in projects to mitigate the identified risks in each PMI's Tobacco Growing Areas, as part of our Good Agricultural Practices (GAP) program and Monitoring Framework (MF) for sustainable curing fuel. The budget for 2021 was \$5.3M and it included the costs related to the implementation of GAP such as the deployment of sustainability initiatives to address the potential risk of tobacco production disruptions in the sourcing markets and their mitigation through GAP implementation activities. The MF supports the adoption of improved sustainability curing practices by the farmers in our supply chain to ensure continuity of implementation of the PMI's zero deforestation program. As an example, in Brazil through GAP, we are implementing reforestation, biodiversity and agricultural innovation initiatives. These initiatives were selected based on the results of our annual risk assessment. In 2021, the budget allocated for Brazil represent 10 % of the total costs of implementation of the initiatives. The total budget of the GAP program is revised on an annual basis. PMI expects to have similar associated costs in the near to medium term (3-5 years).

Forest risk commodity

Timber products

Type of risk

Regulatory

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Poor enforcement of regulation

Primary potential impact

Increased production costs

Company-specific description

PMI sources a portion of materials from some countries known for their limited enforcement of forest-related regulation. We comply with applicable laws and we have compliance policies and programs in place which we require our suppliers to follow. If protected areas or timber harvest regulations are not enforced and if PMI does not have certainty that regulation designed to ensure sustainability of materials is enforced, PMI invests in additional measures to verify that the material is sustainable in those countries. For example, PMI sources Virginia Flue-Cured tobacco (FCV) from Philippines and Malawi, among other countries, and, based on the development of country-specific forest risk maps, we have identified possible deforestation risks in these countries, both of which rely solely on wood fuel for the curing process. Even though forests are protected by law, this is not always enforced, therefore, PMI's procurement costs may increase due to the additional measures PMI is implementing to ensure all wood-based fuels used in curing tobacco are sustainable (for example, local risk assessment procedures, additional engagement with local suppliers, development of sustainability projects).

Timeframe

Current - up to 1 year

Magnitude of potential impact

Medium-low

Likelihood

Very likely

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

90000000

Potential financial impact figure - minimum (currency)

<Not Applicable>

Potential financial impact figure - maximum (currency)

<Not Applicable>

Explanation of financial

In our 2021 risk forecasting, we assumed as substantive risks those with a potential impact in excess of \$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves in our tobacco supply chain. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks, including availability of forest resources, and impact on deforestation.

To estimate financial impacts from this risk PMI used public data sources on typical cost shares for firewood and similar agricultural products, and estimates potential price increments resulting from supply chain disruptions due to increased ecosystem vulnerability. PMI estimated that poor enforcement of regulation could lead to the risks of increased ecosystem vulnerability impacting farmers' production cost due to an estimated 16% price increase in the acquisition of sustainable firewood, increasing PMI's procurement costs above our metric for substantive financial impact. PMI estimated financial impacts by using modelled increments in firewood costs, along with total volumes of purchased tobacco and the ratio of volume cured using fossil fuels as well as renewable fuel sources on annual basis. It was then assumed that the PMI procurement expenditure on tobacco would remain constant in a business-as-usual scenario and increase by the same rate as diesel price under climate change scenarios (16%), resulting on a financial impact estimation of \$90M.

Primary response to risk

Engagement with suppliers

Description of response

Good Agricultural Practices (GAP) was launched in 2002 and Monitoring Framework (MF) for Sustainable Leaf Curing Fuels followed in 2016. It is mandatory that tobacco suppliers comply to GAP and MF on annual basis. PMI's MF was verified in 2021 by a 3rd party with 22 out of 24 tobacco suppliers achieving 100% compliance with MF (remaining 2 suppliers were considered immaterial from a deforestation risk perspective by the MF program auditor, in addition to being new suppliers in 2021, they were engaged to align practices to comply with requirements). Overall audit results recognize compliance with MF for Virginia flue cured tobacco volume purchased by PMI in 2021. PMI actively engages with tobacco suppliers to support them in implementation of GAP and MF. Its implementation and supplier engagement are expected to address risk of poor enforcement of regulation by requiring tobacco suppliers to ensure that all wood-based fuels used are sustainable. PMI considers that the response has been effective and tobacco suppliers implementing GAP and MF are addressing this risk. Currently, 99% of the wood-based curing fuel, is sustainable and traceable, which has decreased the risk and is expected to prevent future impacts. Additionally, to address poor enforcement of regulation and other risks, PMI has Responsible Sourcing Principles in place. These principles provide process and performance requirements applicable to all suppliers including environmental, social and governance topics.

Cost of response

5300000

Explanation of cost of response

The cost of response covers the annual investment in projects to mitigate the identified risks in each PMI Tobacco Growing Area, as part of our Good Agricultural Practices (GAP) program and Monitoring Framework (MF) for sustainable curing fuel. The budget for 2021 was \$5.3M and it included costs related to the implementation of GAP activities such as deployment of the sustainability initiatives to address potential risk of tobacco production disruptions in the sourcing markets, to support the adoption of improved and innovative practices by the farmers in our supply chain and also to ensure continuity of implementation of the MF for sustainable curing fuel. As an example, in Brazil, we are implementing reforestation, biodiversity and agricultural innovation initiatives. These initiatives were selected based on the results of our annual risk assessment. In 2021, the budget allocated for Brazil represent 10 % of the total costs of implementation of the initiatives. The total budget of the GAP program is revised on an annual basis. PMI expects to have similar associated costs in the near to medium term (3-5 years).

Forest risk commodity

Timber products

Type of risk

Reputational and markets

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased cost of certified sustainable material

Primary potential impact

Increased production costs

Company-specific description

There is no mature market for certified wood fuel for tobacco curing. This is a challenge for PMI to source certified sustainable materials. For the case of wood-based curing fuels, for example, PMI is already requiring tobacco suppliers to ensure fuel sustainability and traceability through specific on the ground activities. PMI's increased engagement with tobacco suppliers in sustainability activities results in additional expenditures. Expenditures in sustainability activities is one of the elements that may impact our tobacco procurement costs.

The fine papers and acetate tow supply chains have worked to catch up on their lag in offering certified sustainable material vs the packaging board and paper supply chain. Latest estimate shows that close to 100% of our fine paper suppliers, and 100% of our acetate tow suppliers are now part of certified chain of custody systems. However, as stated in the Zero Deforestation Manifesto, PMI contemplates the purchase of certified material as being part of the solution, in addition a robust wood fiber traceability, third party forest management certification and use of recycled material has to be shown as a proof of sustainability. In 2021, we purchased certified material from three suppliers and in 2022, we are planning to potentially increase the number of suppliers up to 10-15. In 2022, we also plan to participate in the FSC Pilot Program Scheme that will allow us to report publicly certified purchased volumes.

Timeframe

1-3 years

Magnitude of potential impact

Medium-low

Likelihood

About as likely as not

Are you able to provide a potential financial impact figure?

Yes, an estimated range

Potential financial impact (currency)

<Not Applicable>

Potential financial impact figure - minimum (currency)

19000000

Potential financial impact figure - maximum (currency)

98000000

Explanation of financial

The latest review of our board and paper (B&P) used for packaging, acetate tow (AT), fine papers (FP) and shipping case (SC) supply chains showed that a substantive cost increase is to be expected if PMI decides to adjust its sourcing strategy and buy certified products. A range of mark up going from 2% (\$19M) to 4% (\$39M) of the yearly purchasing spend is an estimate of cost increase applicable to FP, AT, B&P and SC.

The potential impact from the tobacco supply chain (\$79M) added to the minimum mark up on packaging (\$19M), making the maximum financial impact \$98M. To estimate financial impacts from this risk, PMI used public data on typical cost shares for firewood and similar agri-products and estimates on potential price increments resulting from supply chain disruptions due to increased ecosystem vulnerability. PMI estimated that risks of increased ecosystem vulnerability could raise farmers' production cost due to an estimated 16% price increase in the acquisition of sustainable firewood, increasing PMI's procurement costs above our metric for substantive financial impact (\$5M). PMI estimated financial impacts via modelled increments in firewood costs, along with total volumes of purchased tobacco and the ratio of volume being cured using fossil and renewable fuel sources annually. It was assumed that PMI procurement expenditure on tobacco would remain constant in business-as-usual scenario.

Primary response to risk

Engagement with suppliers

Description of response

Good Agricultural Practices (GAP) was launched in 2002 and the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels in 2016. It is mandatory that tobacco suppliers comply to GAP and MF on an annual basis. PMI's MF was verified in 2021 by a 3rd party with 22 out of 24 tobacco suppliers achieving 100% compliance with MF (remaining 2 suppliers were considered immaterial from a deforestation risk perspective by the MF program auditor, in addition to being new suppliers in 2021, they were engaged to align practices to comply with requirements). Overall audit results recognize compliance with MF for Virginia flue cured tobacco volume purchased by PMI in 2021. PMI actively engages with tobacco suppliers to support them in the implementation of the MF. Its implementation and associated supplier engagement are expected to address the risk of poor enforcement of regulations by requiring suppliers to ensure that all wood based fuel used is sustainable. PMI considers that the response has been effective and that tobacco suppliers implementing the MF are addressing this risk. Currently, 99% of wood-based fuel, is sustainable and traceable, which has decreased the risk on deforestation and is expected to prevent future impacts. Additionally, to address suppliers' governance and ownership of sustainability at central level, PMI's Responsible Sourcing Principles provide process and performance guidance applicable to all suppliers including environmental, social and governance topics.

Cost of response

5800000

Explanation of cost of response

The cost of response covers the annual investment in projects to mitigate the identified risks in each PMI's Tobacco Growing Areas, as part of our Good Agricultural Practices (GAP) program and Monitoring Framework (MF) for sustainable curing fuel. The budget for 2021 was \$5.3M and it included the costs related to the implementation of GAP activities such as deployment of the sustainability initiatives to address potential risk of tobacco production disruptions in the sourcing markets, to support the adoption of improved and innovative practices by the farmers in our supply chain and to ensure continuity of implementation of the MF. As an example, in Brazil, we are implementing reforestation, biodiversity and agricultural innovation initiatives. These initiatives were selected based on the results of our annual risk assessment. In 2021, the budget allocated for Brazil represent 10 % of the total costs of implementation of the initiatives. The total budget of the GAP program is revised on an annual basis. PMI expects to have similar associated costs in the near to medium term (3-5 years).

The cost of response associated to our paper and pulp-based supply chain is estimate at \$0.5M, it covers the implementation of actions and assurance framework to ensure the compliance of suppliers in our Zero Deforestation Manifesto commitments. The full cost of response (\$5.8M) is the sum of \$5.3M for tobacco supply chain and \$0.5M for non-tobacco supply chains.

Forest risk commodity

Timber products

Type of risk

Chronic physical

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased severity of extreme weather events

Primary potential impact

Supply chain disruption

Company-specific description

Most of our wood-based materials are sourced from regions (Nordics, European Countries, Russia accounting for more than 50% of our wood/pulp origin) that are going through changes in weather/precipitation patterns (e.g., more rain, less snow) – that could impact trees growth, soils degradation and logging/harvesting periods, creating potential future resource availability limitations. Due to these risks, there could be a potential price increase impact for the paper and pulp-based materials that PMI is purchasing. In addition, in Asia, some of the paper and pulp-based products we purchase originate from concessions that are vulnerable to major fire events.

Timeframe

4-6 years

Magnitude of potential impact

Medium

Likelihood

More likely than not

Are you able to provide a potential financial impact figure?

Yes, an estimated range

Potential financial impact (currency)

<Not Applicable>

Potential financial impact figure - minimum (currency)

40000000

Potential financial impact figure - maximum (currency)

137000000

Explanation of financial

The risk associated with lack of sustainable and traceable wood-based materials in our supply chain due to impacts of extreme weather events or other causes could potentially be reflected in an estimated price range increase of 5% to 15% for paper and pulp-based products we purchase vs 2021 total spend for these materials.

Primary response to risk

Engagement with suppliers

Description of response

Our active risk management strategy aims to reduce the likelihood of supply chain disruptions due to physical climate risks through biodiversity and forest conservation activities. In 2021 PMI refreshed its Zero Deforestation Manifesto (ZDM), aiming to achieve positive environmental impacts over the long-term incl. a set of targets to protect forests in our supply chain. As part of the ZDM, PMI is working with suppliers of paper and pulp-based products to move towards traceable and sustainable raw material sourcing. Compliance to ZDM will be assessed by an external auditor and will take place in 2022, the program will run until year 2030 when targets are set to be reached and overall objectives reassessed. Achieving PMI's ZDM commitments will protect the forests from which we source and contribute to the development of ecosystems and communities more resilient to climate change impacts, such as increased severity of weather events.

To achieve ZDM commitments PMI actively engages suppliers to align on sustainability expectations, increase our understanding of their current practices on deforestation risk mitigation and their exposure to physical climate risks. PMI considers its current approach to be effective as no major disruptions in the supply chain have taken place. PMI will continue to adapt and improve its strategy in the future, strengthening monitoring processes and progress towards targets, particularly in high-risk countries such as Indonesia and Brazil.

Cost of response

500000

Explanation of cost of response

The cost of response is the estimated internal investment (\$0.5M), which should cover the design and implementation of the remaining assurance framework across the supply base, as well as the implementation of a monitoring framework supported by innovative technologies, especially digital connected to geospatial analysis on environmental attributes, to deliver the expected tangible results supporting our zero net deforestation commitments. Future potential costs to implement other specific initiatives needed to catalyze adoption of improved and innovative practices in our non-leaf supply chains are not yet evaluated and therefore not included in this figure.

F3.2

(F3.2) Have you identified any forests-related opportunities with the potential to have a substantive financial or strategic impact on your business?

	Have you identified opportunities?
Timber products	Yes
Palm oil	<Not Applicable>
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other - Cocoa	<Not Applicable>
Other - Coffee	<Not Applicable>

F3.2a

(F3.2a) For your selected forest risk commodity(ies), provide details of the identified opportunities with the potential to have a substantive financial or strategic impact on your business.

Forest risk commodity

Timber products

Type of opportunity

Resilience

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Improved supply chain engagement

Company-specific description & strategy to realize opportunity

PMI identified an opportunity to improve the company's resilience by managing forest risks related to the sourcing of tobacco by engaging the company's tobacco suppliers to mitigate future cost increments in the acquisition of sustainable raw materials. The company developed a strategy to increase resilience through the application of the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels. As part of this framework, annually tobacco suppliers should comply with a series of sustainability criteria to prevent deforestation. The implementation of the MF since 2016 is strategically relevant as it has increased PMI's engagement with tobacco suppliers and is important to secure our supply of sustainably cured tobacco. The resilience of our tobacco supply chain increases if forests are sustainably managed and will mitigate the risk on resource availability and price fluctuation. To realize the opportunity, PMI is working closely with tobacco suppliers by supporting them with technical assistance when they face challenges related to tobacco curing fuels sustainability and traceability associated to the implementation of the MF. This entails several measures such as holding strategy sessions, financing country-specific risk assessments and providing technical advice. PMI through its regional offices holds meetings with tobacco suppliers to discuss the implementation of MF, including their progress on curing fuel sustainability and traceability. On a quarterly basis, PMI Regional and Central team conduct alignment sessions to provide updates on progress of the tobacco suppliers on their sustainability compliance. It is expected that as a result of this engagement, tobacco suppliers will be able to prove sustainability and traceability in conformity with the Monitoring Framework principles when audited by a third-party. For example, as a result

of the enforcement of the MF in Mozambique, in the 2021 third-party audit the tobacco supplier has achieved the 100% sustainable and traceable fuel used for tobacco curing. Firewood sustainability studies in Pakistan and the Philippines were finalized in 2020 and demonstrated that the fuel used for tobacco curing came from sustainable sources and in 2021, this was updated to include new farmer base. These studies were done in collaboration with local NGOs and exchanging information with local governments.

Estimated timeframe for realization

Current - up to 1 year

Magnitude of potential impact

Medium-high

Likelihood

Virtually certain

Are you able to provide a potential financial impact figure?

Yes, an estimated range

Potential financial impact figure (currency)

<Not Applicable>

Potential financial impact figure – minimum (currency)

20000000

Potential financial impact figure – maximum (currency)

98000000

Explanation of financial impact figure

The potential financial impact reflects estimated benefits for farmers across our tobacco supply chain. We do not estimate direct potential financial benefits to PMI but rather indirect benefits to the company through supply chain improved resilience, including mitigation of future cost increments in the acquisition of raw materials. Another intangible benefit for PMI would be to position itself as a leading company collaborating with its suppliers to implement actions that contribute to a more sustainable future. To estimate financial impacts from this opportunity, PMI used public data sources on typical cost shares for firewood and similar agricultural products, as well as estimates on potential price increments resulting from supply chain disruptions due to increased ecosystem vulnerability. PMI estimated that this opportunity could reduce by 16% farmers' expected future costs related to acquisition of firewood, leading to the identification of a substantive opportunity according to our \$5M metric. PMI estimated financial impacts by using the modelled increments in firewood costs, along with total volumes of purchased tobacco and the ratio of volume being cured using fossil fuels as well as renewable fuel sources on an annual basis (lower range at 16% and upper range at 34%). It was then assumed that the PMI procurement expenditure on tobacco would remain constant in a business-as-usual scenario and increase by the same rate as diesel price under climate change scenarios.

Forest risk commodity

Timber products

Type of opportunity

Resilience

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Ensuring supply chain resilience

Company-specific description & strategy to realize opportunity

Over 50% of our wood-based direct materials originate from regions experiencing changes in weather/precipitation patterns, e.g., more rain, less snow, namely Nordic European Countries and Russia, posing potential future resource availability limitations.

The resilience of our pulp-based materials supply chain and the associated natural ecosystems to climate change increases if forests are sustainably managed and will support to mitigate the risk on resource availability and price fluctuation.

Through PMI's Responsible Sourcing Principles, yearly we set mandatory requirements to all our suppliers and aim to achieve measurable, tangible improvements in our supply chain. With the publication of its Zero Deforestation Manifesto (ZDM), PMI has increased the focus on its wood-based material supply chain.

To help achieve our zero deforestation commitments, yearly we engage with our suppliers to communicate our expectations, increase our understanding of their current practices and set targets for the materials they supply. We have performed webinars, individual interviews and commissioned third parties to perform onsite visits. PMI conducts annual strategy and engagement sessions with all primary pulp-based suppliers and have started also engaging with secondary pulp-based suppliers.

In 2020 we performed a follow up audit at one of our wood-based material suppliers located in Asia resulting in the closing of all 17 corrective actions based on 14 findings identified during the initial audit, (incl. non-conformities and areas for improvement).

In 2021, four webinar sessions were organized for primary pulp-based products suppliers to highlight requirements under the Zero Deforestation Manifesto. Signed commitment letters from 100% of 26 primary pulp-based product suppliers were provided as an alignment to the requirements of the ZDM program. In 2022, additional four webinar sessions have been scheduled for secondary pulp-based products suppliers. Commitment letters to ZDM and related guidelines are distributed against the request for the suppliers to acknowledge them and sign their commitment to the program and in return, suppliers provide their signed commitment letters.

Estimated timeframe for realization

>6 years

Magnitude of potential impact

Medium

Likelihood

Likely

Are you able to provide a potential financial impact figure?

No, we do not have this figure

Potential financial impact figure (currency)

<Not Applicable>

Potential financial impact figure – minimum (currency)

<Not Applicable>

Potential financial impact figure – maximum (currency)

<Not Applicable>

Explanation of financial impact figure

As PMI is still assessing options to realize this opportunity no direct financial benefits have been estimated for the company in relation to the opportunity in the short to medium, or even long, term. The estimation of financial benefits will be revisited once PMI has a more comprehensive understanding of the different direct and indirect environmental benefits that could arise from this opportunity, as well as a framework to account and report on them (for example, natural capital). However, the outcome of this opportunity would enable PMI to build a stronger and more resilient value chain, and that would be capable of positioning itself as a leading company collaborating with its suppliers to implement actions that contribute to a more sustainable future.

F4. Governance

F4.1

(F4.1) Is there board-level oversight of forests-related issues within your organization?

Yes

F4.1a

(F4.1a) Identify the position(s) of the individual(s) (do not include any names) on the board with responsibility for forests-related issues.

Position of individual	Please explain
Board-level committee	PMI's Board of Directors (BoD) and its Committees are responsible to foster the long-term success of the company including setting broad corporate policies, strategic direction, and overseeing management. As part of their responsibilities, the BoD revises and approves PMI's annual budget based on the company's performance and targets, including those resources required to ensure no conversion of natural ecosystems, and halting deforestation in our supply chain, as part of our Zero Deforestation Manifesto commitments. In 2021, PMI's BoD decided to establish the Sustainability Index (including KPIs on no deforestation and no conversion of natural ecosystems) and use this as one of PMI's performance metrics in the three-year incentive executive compensation program. PMI's Integrated Report 2021 was completed with the oversight from PMI's BoD and by its Executive Chairman.
Board-level committee	The Audit Committee of the Board, composed by 6 Board members at the time of the publication of the 2022 Proxy Statement, oversees the assessment and management of the company risks, including the provision of recommendations to executive management on those related to forest related risks, climate change such as natural disasters, water scarcity and agricultural instability, which may lead to increased pressure on natural resources and conflict with other users, affect our direct operations and/or our supply chain, and thus potentially impacting PMI's ability to operate. Such risks could disrupt our supply chain and could increase costs of our materials and operations.

F4.1b

(F4.1b) Provide further details on the board’s oversight of forests-related issues.

	Frequency that forests-related issues are a scheduled agenda item	Governance mechanisms into which forests-related issues are integrated	Please explain
Row 1	Scheduled - some meetings	Monitoring implementation and performance Overseeing acquisitions and divestiture Overseeing major capital expenditures Providing employee incentives Reviewing and guiding annual budgets Reviewing and guiding business plans Reviewing and guiding corporate responsibility strategy Reviewing and guiding major plans of action Reviewing and guiding risk management policies Reviewing and guiding strategy Reviewing innovation / R&D priorities Setting performance objectives	The Board of Directors (BoD) oversees PMI’s full range of activities including establishing corporate policies, setting strategic direction, and overseeing Management, which is responsible for the day-to-day operations of the company, using the selected governance mechanism. The BoD approves the company’s annual budget and receives updates on the company’s performance and targets against the budget throughout the year including those related to the achievement of sustainability and zero deforestation targets. The BoD has established various standing Committees to assist with the performance of its responsibilities and is regularly informed on future plans, and significant issues affecting the business, including the forest ones. The BoD meets typically 6 times per year with additional meetings held as necessary. The BoD is advised on forest-related issues by the Nominating and Corporate Governance Committee of the BoD, which oversees the Company’s sustainability strategies and performance. The committee met 5 times in 2021. The BoD oversees the management of risks relating to the Company’s business. Risk oversight is conducted both by Committees of the BoD as well as by the full BoD.

F4.1d

(F4.1d) Does your organization have at least one board member with competence on forests-related issues?

Row 1

Board member(s) have competence on forests-related issues

Yes

Criteria used to assess competence on forests-related issues

PMI assesses competence of the Board on sustainability related issues, including forest related issues, based on its members’ relevant professional experience, academic background or other professional trainings on climate science, environmental science or engineering, sustainability, or other related subjects.

Several members of PMI’s BoD have expertise in sustainability and ESG matters, including on Forest-related matters. Particularly, one of our board directors brings unique understanding of ESG strategy, as he has served as CEO to the Global Adaptation Institute (a foundation dedicated to the understanding of climate change) and as Co-Chair to the World Economic Forum’s Global Agenda Council on Climate Change. His expertise also includes forest-related impacts from climate change.

Primary reason for no board-level competence on forests-related issues

<Not Applicable>

Explain why your organization does not have at least one board member with competence on forests-related issues and any plans to address board-level competence in the future

<Not Applicable>

F4.2

(F4.2) Provide the highest management-level position(s) or committee(s) with responsibility for forests-related issues (do not include the names of individuals).

Name of the position(s) and/or committee(s)	Responsibility	Frequency of reporting to the board on forests-related issues	Please explain
Other C-Suite Officer, please specify (Senior Vice President, Operations)	Both assessing and managing forests-related risks and opportunities	Quarterly	<p>A member of the Company Management (CM), the Senior Vice President, Operations (SVP Operations) is tasked with addressing forest related risk across all activities of the company. In 2021, our SVP Operations reports directly to CEO and is delegated with operational responsibility, incl. maintaining robust business resiliency, risk assessment processes, and strategies to support business continuity. With the CM, they report forest related issues and the progress on achieving targets on Zero Gross and Net Deforestation, for 2025 and 2030 to the Nominating & Corporate Governance Committee and Audit Committee of the BoD on quarterly basis, via presentation incl. strategies and performance progression. The report covers as well 1 of the 19 KPIs in PMI's Sustainability Index (proportion of tobacco at no risk of deforestation or managed natural forest and no conversion of natural ecosystem),</p> <p>Our SVP Operations examines and monitors forest related risks, ensures that risk assessment and management are integrated into long-range plans, objectives, budgets, and performance review processes. He is responsible to address risks as they could lead to disruption of supply chains and could increase costs of our materials and operations. SVP Operations leads the Operations Sustainability Function (OSF) that reports to him and is tasked to drive environmental strategies and embed them into the core of our business, due to the strategic importance of forest-related issues on our operations.</p>
Chief Financial Officer (CFO)	Both assessing and managing forests-related risks and opportunities	Annually	<p>Fully integrating ESG drivers into business strategy can significantly enhance both sustainability agendas and financial performance. Accordingly, PMI's Chief Sustainability Officer reports to the Chief Financial Officer—a member of the CM who heads the Sustainability, Finance, and Strategy functions.</p> <p>The Sustainability Committee – composed of the company's CEO, CFO, Senior VP Operations, and other members of the CM – meets quarterly to review and validate PMI strategy, commitments, goals, progress, and annual reporting. Updates are provided to the Board of Directors and the NCGC at least once a year through PMI's CSO.</p> <p>PMI's sustainability strategy is shaped by a formal sustainability materiality assessment, which was updated in 2021, re-prioritizing the most relevant sustainability topics for PMI including forest related topics. To help manage these topics from a global and sustainability perspective, within our CM, members are responsible for driving progress and delivering on our sustainability targets within their respective functions (e.g., achieving the Zero Deforestation Manifesto targets).</p>
Other, please specify (Sustainability Committee)	Other, please specify (Overseeing PMI's sustainability work)	Annually	<p>The Sustainability Committee – composed of the company's CEO, CFO, Senior VP Operations, and other members of the Company Management – meets quarterly to review and validate PMI strategy, commitments, goals, and annual reporting. The review encompasses the oversight of PMI's sustainability work, incl. deforestation and other forest related issues.</p> <p>PMI's sustainability strategy is shaped by a formal sustainability materiality assessment, which was updated in 2021, re-prioritizing the most relevant sustainability topics for PMI. To help manage these topics from a global and sustainability perspective, within our CM, members are responsible for driving progress and delivering on our sustainability targets within their respective functions (e.g. mitigating climate change, decarbonizing our value chain and combating deforestation are addressed by SVP Operations).</p> <p>PMI's CSO heads and manages PMI's Sustainability Team, reports on progress to the Sustainability Committee on a quarterly basis and updates the Board of Directors and the NCGC at least once a year.</p>
Chief Sustainability Officer (CSO)	Other, please specify (Leading the integration of sustainability, including forest topics, across PMI)	Annually	<p>PMI's CSO leads the strategy of integration of the most relevant sustainability topics, as prioritized based on PMI sustainability materiality assessment and including forest related issues, across our business. PMI's CSO heads and manages PMI's Sustainability Team, reports on progress to the Sustainability Committee on a quarterly basis and updates the Board of Directors and the NCGC at least once a year.</p> <p>From an operational perspective, our Operations Sustainability function and Sustainability Team coordinate the company's climate change-related activities. Most of the coordination takes place in the context of sustainability working groups and with local market coordinators. This helps ensure that our global strategies and programs are monitored, assessed and implemented down to the market level and that local realities are reflected in our global efforts.</p>

F4.3

(F4.3) Do you provide incentives to C-suite employees or board members for the management of forests-related issues?

	Provide incentives for management of forests-related issues	Comment
Row 1	Yes	Our executive compensation program reflects our commitment to put sustainability at the core of our corporate strategy. The three components of total direct compensation for our executive officers are base salary, annual performance-based incentive compensation awards, and long-term variable equity awards. Sustainability performance (including progress on tackling deforestation risks) is incorporated in both annual incentive awards and equity awards.

F4.3a

(F4.3a) What incentives are provided to C-Suite employees or board members for the management of forests-related issues (do not include the names of individuals)?

	Role(s) entitled to incentive?	Performance indicator	Please explain
Monetary reward	Corporate executive team Chief Executive Officer (CEO) Other, please specify (Company Management, Middle management, Sustainability Managers, Employees)	Achievement of commitments and targets	<p>PMI introduced the Sustainability Index (SI), which comprises 19 KPIs that are directly linked to our 11 roadmap goals. PMI's SI links ESG performance transparently and objectively to executive compensation. For a full list of individuals comprising the corporate executive team, please refer to Item 10 of the Annual Report on Form 10-K for the year ended December 31, 2021.</p> <p>Some of the forest related metrics that are linked to executive compensation include Zero gross deforestation for tobacco supply chain starting 2020 and with annual target. It will also include the Zero gross deforestation targets for paper and pulp-based supply chain to be achieved until year 2025, Zero net deforestation for tobacco supply chain, and paper and pulp-based supply chain by, respectively, 2025 and 2030.</p> <p>As with our roadmap, we have split the 19 KPIs according to two drivers: "Product Sustainability" (11 KPIs) and "Operational Sustainability" (8 KPIs). PMI assesses and awards a score to each KPI on an annual basis based on the company's performance and calculates the extent to which the SI was fulfilled on a scale of 0 to 150 percent, with a target of 90 to 110 percent every year. The weighting applied to each KPI is informed by the results of our sustainability materiality assessment. As set out in PMI's Proxy Statement 2022, for the 2022-2024 PSUs, the SI is one out of three performance metric, and weights 30% of the total executive compensation.</p>
Non-monetary reward	Corporate executive team Chief Executive Officer (CEO) Other, please specify (All employees)	Achievement of commitments and targets	<p>Behavior change related indicator: annually many affiliates continued to perform voluntary awareness and promotion campaigns/ programs in order to increase employees' active participation in sustainability, including Environment and Health and Safety (EHS) programs, covering a range of topics such as environmental awareness, energy consumption reduction, waste reduction, tree planting and community gardens. Awards and recognition for best practices form a core element of such campaigns and are awarded in line with the achievement of sustainability commitments and targets. Achievement of commitments and targets was selected as an indicator of success as it allows PMI to objectively quantify the progress of the company in the field of forests and sustainability. Our carbon footprint reduction targets are also part of our sustainability objectives and commitments. PMI uses progress towards its sustainability targets as the threshold of success, therefore rewards are provided if progress is either linear to the overall target or exceeding a linear trend. This is measured by a series of indicators including results from PMI's monitoring framework for sustainable tobacco curing fuels, zero gross and zero net deforestation based on our Zero Deforestation Manifesto commitment, GHG accounting, water accounting, as well as other internal metrics such as the rapid progress towards the acceleration of our smoke free vision.</p>

F4.4

(F4.4) Did your organization include information about its response to forests-related risks in its most recent mainstream financial report?

No, but we plan to do so in the next two years

F4.5

(F4.5) Does your organization have a policy that includes forests-related issues?

Yes, we have a documented forests policy that is publicly available

F4.5a

(F4.5a) Select the options to describe the scope and content of your policy.

	Scope	Content	Please explain
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	Scope	Content	Please explain
Row 1	Company-wide	<p>Commitment to eliminate conversion of natural ecosystems</p> <p>Commitment to no land clearance by burning or clearcutting</p> <p>Commitment to eliminate deforestation</p> <p>Commitment to remediation, restoration and/or compensation of past harms</p> <p>Commitment to resolving both social and environmental issues in own operations and supply chain</p> <p>Commitment to protect rights and livelihoods of local communities</p> <p>Commitments beyond regulatory compliance</p> <p>Commitment to transparency</p> <p>Commitment to stakeholder awareness and engagement</p> <p>Commitment to align with the SDGs</p> <p>Recognition of the overall importance of forests and other natural ecosystems</p> <p>Description of business dependency on forests</p> <p>Recognition of potential business impact on forests and other natural ecosystems</p> <p>Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy</p> <p>List of timebound milestones and targets</p> <p>Description of forests-related performance standards for direct operations</p> <p>Description of forests-related standards for procurement</p>	<p>PMI's public policy called "Zero Deforestation Manifesto" (ZDM) and its Responsible Sourcing Principles cover the use of wood fuel for curing tobacco, paper and pulp-based products used for manufacturing in all countries where PMI operates and sources materials from. Since these materials are key for the manufacturing of PMI's products any disruptions on the availability or in their quality could directly translate in financial impacts for PMI. Thus, PMI's dependency on forests and its associated ecosystem services are covered in our policy which is revised and updated yearly as necessary. PMI recognizes that its operations (direct and supply chain) can have potential impacts on forests and natural habitats. Therefore, it has established time bound SDG-aligned commitments and targets beyond regulatory compliance to tackle them including: Zero gross deforestation targets for paper and pulp-based supply chain to be achieved until year 2025, Zero net deforestation for tobacco supply chain, and paper and pulp-based supply chain by, respectively, 2025 and 2030. Progress on these is disclosed in our Sustainability Report as part of our commitment to transparency. Since 2002 PMI launched its Good Agricultural Practices (GAP) program, defining the principles and standards that must be met by all who grow and supply tobacco to PMI. GAP also aims to engage with suppliers and improve socioeconomic conditions and protect the rights of the people and local communities involved in tobacco production. Our Monitoring Framework for Sustainable Leaf Curing Fuel was launched in 2016 and since then it has been our main initiative to tackle deforestation risks. We collect data on multiple environmental indicators and monitors the percentage of compliant farmers. The results are used internally to track PMI progress towards its forest commitments, to identify and engage suppliers and farmers failing to adopt best practices or from high-risk areas, and to make decisions regarding projects to be implemented. This decision-making process is exemplified by our work in the Philippines in 2021: through our risk assessment we identified a change in tobacco farmer base sourcing and updated the local risks maps, identified farmers near to forest ecosystems, and developed management plans and training sessions with 100% farmers to be able to trace their firewood and comply with PMI's ZDM.</p>

pmi-zero-deforestation-manifesto.pdf

(F4.5b) Do you have commodity specific sustainability policy(ies)? If yes, select the options that best describe their scope and content.

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Timber products	Yes	Company-wide	Commitment to eliminate conversion of natural ecosystems Commitment to no land clearance by burning or clearcutting Commitment to eliminate deforestation Commitment to remediation, restoration and/or compensation of past harms Commitment to protect rights and livelihoods of local communities Commitments beyond regulatory compliance Commitment to transparency Commitment to stakeholder awareness and engagement Commitment to align with the SDGs Recognition of the overall importance of forests and other natural ecosystems Description of business dependency on forests Recognition of potential business impact on forests and other natural ecosystems Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy List of timebound commitments and targets Description of forests-related performance standards for direct operations Description of forests-related standards for procurement	PMI's public policy called "Zero Deforestation Manifesto" (ZDM) and its Responsible Sourcing Principles cover the use of wood fuel for curing tobacco, paper and pulp-based products used for manufacturing in all countries where PMI operates and sources materials. Since these materials are key for the manufacturing of PMI's products any disruptions on the availability or in their quality could directly translate in financial impacts for PMI. Thus, PMI's dependency on forests and its associated ecosystem services are covered in our policy which is revised and updated yearly as necessary. PMI recognizes that its operations (direct and supply chain) can have potential impacts on forests and natural habitats. Therefore, it has established time bound SDG-aligned commitments and targets beyond regulatory compliance to tackle them including: Zero gross deforestation targets for paper and pulp-based supply chain to be achieved until year 2025, Zero net deforestation for tobacco supply chain, and paper and pulp-based supply chain by, respectively, 2025 and 2030. Progress on these is disclosed in our Sustainability Report as part of our commitment to transparency. Since 2002 PMI launched its Good Agricultural Practices (GAP), defining the principles and standards that must be met by all who grow and supply tobacco to PMI. GAP also aims to engage with suppliers and improve socioeconomic condition and protect the rights of the people and local communities involved in tobacco production. Our Monitoring Framework for Sustainable Leaf Curing Fuel was launched in 2016 and since then it has been our main initiative to tackle deforestation risks. We collect data on multiple environmental indicators and monitors the percentage of compliant farmers. The results are used internally to track PMI progress towards its forest commitments, to identify and engage suppliers and farmers failing to adopt best practices or from high-risk areas, and to make decisions regarding projects to be implemented. This decision-making process is exemplified by our work in the Philippines in 2021: through our risk assessment we identified a change in tobacco farmer base sourcing and updated the local risks maps, identified farmers near to forests ecosystems, and developed management plans and training sessions with 100% farmers to be able to trace their firewood and comply with PMI's ZDM.

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F4.6

(F4.6) Has your organization made a public commitment to reduce or remove deforestation and/or forest degradation from its direct operations and/or supply chain?

Yes

F4.6a

(F4.6a) Has your organization endorsed any of the following initiatives as part of its public commitment to reduce or remove deforestation and/or forest degradation?

Other, please specify (PMI is a member of WBCSD Forest Solutions Group since 2019 in line with our strategy of protecting forests and promoting their sustainable management through adoption of shared best practices and benchmark with other sectors' champion companies.)

F4.6b

(F4.6b) Provide details on your public commitment(s), including the description of specific criteria, coverage, and actions.

Forest risk commodity

Timber products

Criteria

- No conversion of natural ecosystems
- Zero gross deforestation/ no deforestation
- Zero net deforestation
- No new development on peat regardless of depth
- Restoration and compensation to address past deforestation and conversion
- Avoidance of negative impacts on threatened and protected species and habitats
- No land clearance by burning or clearcutting
- No conversion of High Conservation Value areas
- No conversion of High Carbon Stock forests
- Implementation of Nature-based Solutions that support landscape restoration and long-term protection of natural ecosystems
- Secure Free, Prior and Informed Consent (FPIC) of indigenous people and local communities
- Promotion of gender equality and women's empowerment
- Adoption of the UN International Labour Organization principles
- Resolution of complaints and conflicts through an open, transparent and consultative process
- Facilitate the inclusion of smallholders into the supply chain
- No sourcing of illegally produced and/or traded forest risk commodities
- No sourcing of forest risk commodities from unknown/controversial sources
- Recognition of legal and customary land tenure rights

Operational coverage

Supply chain

% of total production/ consumption covered by commitment

100%

Cutoff date

2019

Commitment target date

2026-2030

Please explain

To achieve our Zero Deforestation Manifesto (ZDM) forest commitments we have two core action areas: supplier engagement and third-party verification. As a result of the deforestation risk assessment of our value chain, we identified priority suppliers to be engaged.

We aim to a free, prior, and informed consent (FPIC) when engaging directly or via our commercial partners with indigenous people and local communities in the context of significant land alteration due to projects promoted linked to forests playing a role in our supply chain. In 2021, for high-risk paper and pulp-based suppliers in Indonesia, we monitored progress on land disputes resolution, ensuring FPIC, management of contractors and their rights and other social/labor parameters. Land dispute is being actively monitored by the supplier with progress being shared to PMI to provide transparency and monitor land alteration with a robust approach on the consent of local communities. FPIC is achieved only by having all parties of a local community thoroughly engaged to solve eventual land disputes that need to be discussed and acted upon to ensure the resolution of standing issues.

Since 2018 we have implemented a 3rd-party audit process to verify the compliance of our suppliers with the Monitoring Framework (MF) for Sustainable Tobacco Leaf Curing Fuels. Suppliers must submit traceability evidence proving their firewood is legal and no conversion of natural habitats for its production, with a cut-off date of 2019. Via MF implementation, we expect our zero net deforestation commitments to be achieved. As a result of the MF 3rd-party verification, 100% of the Virginia Flue-Cured tobacco (FCV) we purchased in 2021 from Latin America, Europe, Africa and Asia Pacific Regions are compliant to zero gross deforestation criteria and we detected no ecosystems conversion. To prevent deforestation, we worked with our farmers on the adoption of live barns in Malawi and Mozambique. Burley tobacco we purchase from Malawi and Mozambique is air-cured in barns made of timber, which needs to be replaced regularly, placing forests at risk. To reduce risk, we promote the use of "live barns," using living trees as barn poles and remain in place for many years. During 2021, we partnered with our suppliers to plant approximately 6,000 live barns in Mozambique and 12,000 in Malawi, reaching a cumulative total of around 94,000 live barns planted in both countries since 2014. The goal of the program is for contracted Burley tobacco farmers in Malawi and Mozambique to have live barns planted helping to prevent deforestation and enhance biodiversity.

In Pakistan, we worked with farmers to compensate areas where past deforestation happened due to use of unsustainable curing fuel. Since 2019, we have restored 165 hectares of forest to compensate for past risk due to sourcing of unsustainable firewood. Aligned with the criteria of ZDM on reforestation activities, we reported additional 190 hectares of forest established since 2019. In ZDM guidelines, we account for contributions only if 2 criteria are fulfilled: zero gross deforestation conditions maintained & zero net deforestation conditions achieved at end state (closing of the year), only then additional forest hectareage is considered. Our MF external auditor must validate the assumptions before PMI can consider the figures in its forest positive accounting.

One key objectives of PMI's Good Agricultural Practices program, which has been active since 2002, is the improvement of crop quality and productivity in our agricultural supply chain. It has a positive impact to reduce land requirements and therefore releasing pressure on natural ecosystem and conversion of it. In Brazil, PMI has continued in 2021 the innovative way of producing tobacco all year round, as compared to normal tobacco production which can only be done once a year, generating higher volume availability without expanding the land or converting natural ecosystems.

F5. Business strategy

F5.1

(F5.1) Are forests-related issues integrated into any aspects of your long-term strategic business plan, and if so how?

	Are forests-related issues integrated?	Long-term time horizon (years)	Please explain
Long-term business objectives	Yes, forests-related issues are integrated	11-15	<p>Forest related issues is integrated in PMI's long-term business objectives since 2016, when PMI worked to identify the areas that are most significant to both our business sustainability and to our stakeholders to prioritize risks, opportunities and emerging themes that required management action and business planning.</p> <p>In 2021, we worked with BSD Consulting, part of ELEVATE to update and carry out a comprehensive sustainability materiality assessment.</p> <p>With it we further embedded forest-related issues which was identified as an important topic incorporated into PMI's sustainability strategy. During 2021, PMI's Sustainability Index (SI) was developed to measure progress and define success against our long-term commitment to ensure no conversion of natural ecosystem and halt deforestation in both our tobacco and paper and pulp-based supply chains. The SI comprises of 19 KPIs that are directly linked to 11 roadmap goals which includes KPI related to purchased tobacco at no risk of deforestation on managed natural forest and no conversion of natural ecosystem. PMI has continued to integrate forests issues in long-term business objectives, to ensure a sustainable supply of raw materials and to mitigate future cost increments in the acquisition of sustainable raw materials.</p> <p>In 2021 PMI continued to use its Monitoring Framework (MF) for tobacco suppliers which includes: 1. zero gross and zero net deforestation 2. Renewable sources/Self-sufficient firewood 3. Full traceability. The global roadmap for sustainable firewood aims at achieving the 3 above targets aligned with our long-term business objectives (11-15 years). The indicators are monitored annually, with the implementation of MF. As an example, Brazil was identified as a high-risk region for the company, PMI is working with its agronomy team, tobacco suppliers, an external agency to verify annually the sustainability of firewood sources and ensure zero gross deforestation in line with the indicator glidepath present in the SI. PMI makes sure that the company monitors progress on achieving a sustainable supply of raw materials, which are essential both for the manufacturing of the company's products and long-term business objectives (11 -15 years).</p>
Strategy for long-term objectives	Yes, forests-related issues are integrated	11-15	<p>Responsible sourcing and sustainable tobacco production are a strategic objective for PMI. PMI has set goals and developed long-term strategic plans to avoid deforestation, and reduce greenhouse gas emissions from the use of wood-based fuels for tobacco curing, all of which were integrated in our long-term strategy via 3 strategic initiatives:</p> <ul style="list-style-type: none"> - Reduce fuel consumption rate via curing efficiency improvement and curing barn optimization programs; - Move from unsustainable wood-based fuels to sustainable curing fuel sources; - Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood or fossil fuels, where appropriate. <p>For example, to implement the strategic initiative to move from unsustainable to sustainable curing fuel sources, PMI has adopted a Global Roadmap for sustainable firewood, including 3 global targets: 1. zero gross and zero net deforestation 2. Renewable sources/Self-sufficient firewood 3. Full traceability. The global roadmap for sustainable firewood provides a timeline for the achievement of the 3 above targets annually. In 2021, as a result of tobacco supplier engagement by holding meetings to support suppliers on the implementation of MF, 75% of Virginia flue-cured tobacco we purchased was cured using renewable and traceable fuels (vs.67% in 2020) and verified by 3rd party.</p> <p>It is important to source materials from deforestation-free supply chain for our tobacco and paper and pulp-based materials. In early 2021, we reinforced this commitment by issuing our revised Zero Deforestation Manifesto (ZDM), further aligning it to the Accountability Framework Initiative guidelines and definitions. The ZDM governs our forestry management efforts and is designed to move us toward becoming forest positive. With it, we reinforced our commitment to protect and measure our impact on forests linked to PMI's supply chain. The manifesto establishes the importance of covering both natural forests and natural managed forests in our framework of action and specifies criteria for on-the-ground interventions needed for us to meet our 2025 and 2030 zero deforestation targets. PMI makes sure to monitor progress on achieving a sustainable supply of raw materials that has no deforestation risk, which are essential both for the manufacturing of the company's products and long-term business objectives (11 -15 years).</p>
Financial planning	Yes, forests-related issues are integrated	11-15	<p>Sustainable tobacco production is key for PMI, with goals and strategic plans to avoid deforestation and reduce greenhouse gas emissions from tobacco curing. As PMI is working towards achieving these goals, human and financial resources are allocated into long-term (11 -15 years) financial planning for forest related issues. For example, PMI developed its Monitoring Framework (MF) for Sustainable Leaf Curing Fuels for tobacco suppliers to comply with and was audited by a third party in 2021. MF requires tobacco suppliers to ensure that 100% of the wood-based fuels used for tobacco curing are sustainable and traceable. MF is an ongoing process implemented in 12 countries where PMI sources Virginia Flue-Cured tobacco (FCV), including Brazil, Argentina and Philippines, which represent some of PMI's main FCV origins. Since its design, careful financial planning including actions, and resources have been allocated to facilitate the achievement of PMI's forest-related objectives. For example, PMI's financial planning considers that sustainable wood fuel may come at a higher cost due to the increased efforts in traceability and verification in different geographies. These potential cost increments are integrated into PMI financial planning, and also into PMI's sustainability programs which aim to address potential risks and opportunities. Annual budget is also allocated for the implementation of initiatives to ensure that tobacco farmers will have access to sustainable source of fuel wood and are not contributing to any deforestation on primary and protected forests. PMI supports suppliers and farmers committed to achieve full sustainability driving efficiency by promoting collective purchase access to shared sustainable firewood suppliers. This approach was deployed since 2018 in all FCV markets by running an externally verified assurance campaign.</p>

F6. Implementation

F6.1

(F6.1) Did you have any timebound and quantifiable targets for increasing sustainable production and/or consumption of your disclosed commodity(ies) that were active during the reporting year?

Yes

F6.1a

(F6.1a) Provide details of your timebound and quantifiable target(s) for increasing sustainable production and/or consumption of the disclosed commodity(ies), and progress made.

Target reference number

Target 1

Forest risk commodity

Timber products

Type of target

Traceability

Description of target

We are committed to promoting the sourcing of wood-based materials from traceable, sustainable and legal sources, while protecting the rights and livelihoods of local communities. We have set a target to achieve 100% of the tobacco purchased without risk of deforestation of primary and protected forest annually. In 2021 we continued to implement this commitment and achieved 100 percent of the tobacco we purchased was cured with no risk of deforestation of primary or protected forests. With the achievement of this target, we expect to ensure zero gross deforestation of primary forests within our tobacco supply chain and further build momentum towards our zero net deforestation commitments at 2025.

Linked commitment

Zero net/gross deforestation

Traceability point

Forest management unit

Third-party certification scheme

<Not Applicable>

Start year

2015

Target year

2021

Quantitative metric

<Not Applicable>

Target (number)

<Not Applicable>

Target (%)

100

% of target achieved

100

Please explain

Sustainable tobacco production is key for PMI with goals and strategic plans to reduce greenhouse gas emissions from tobacco curing as well as to tackle deforestation risk. The 3 strategic initiatives are: • Reduce fuel consumption rate via curing efficiency improvement and curing barn optimization programs; • Move from unsustainable to sustainable curing fuel sources; • Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood fuels or fossil fuels where appropriate. Following the deforestation risk assessment and identified risks and opportunities PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. zero gross and zero net deforestation 2. Renewable sources/Self-sufficient firewood 3. Full traceability. The global roadmap for sustainable firewood provides a timeline for the achievement of the three targets above, set timeline for their achievement is annually. PMI implemented a verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as MF) to monitor progress towards its global targets. MF is composed of four principles, and Principle 2 "Be Sustainable" focuses on sustainability and traceability of the fuel source. Purpose is to ensure that all origins adopt fuels from demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel and required traceability). PMI supports and engages in capacity building activities with tobacco suppliers to ensure they are able to comply with the Monitoring Framework (MF) annually. Through the third-party verification process, we keep an unbiased track of our progress against our target with progress reported. The 2021 audit conducted in 2021 for all our tobacco suppliers resulted in 22 out of 24 tobacco suppliers assessed achieving 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices with MF compliance requirements. Overall, the audit results recognize the compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021.

Target reference number

Target 2

Forest risk commodity

Timber products

Type of target

Assess and/or verify compliance

Description of target

We have set a target to reach 100% compliance with PMI's Monitoring Framework for Sustainable Leaf Curing Fuel in countries from which we source tobacco and that were identified with risk of deforestation of primary and protected forests through our deforestation risk assessment and this target was achieved in 2021. The achievement of this target will ensure zero gross deforestation of primary forests within our tobacco supply chain and contribute to our zero net deforestation commitments.

Linked commitment

Zero net/gross deforestation

Traceability point

<Not Applicable>

Third-party certification scheme

<Not Applicable>

Start year

2017

Target year

2021

Quantitative metric

<Not Applicable>

Target (number)

<Not Applicable>

Target (%)

100

% of target achieved

100

Please explain

Sustainable tobacco production is key for PMI with goals strategic plans to reduce greenhouse gas emissions from tobacco curing to tackle deforestation risk. The 3 strategic initiatives are: • Reduce fuel consumption rate via curing efficiency improvement and curing barn optimization programs; • Move from unsustainable to sustainable curing fuel sources; • Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood fuels or fossil fuels where appropriate. Following the deforestation risk assessment and identified risks and opportunities PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. zero gross and net deforestation 2. Renewable sources/Self-sufficient firewood 3. Full traceability. The global roadmap for sustainable firewood provides a timeline for the achievement of the three targets above, set timeline for their achievement until 2020 as the first cycle and continued implementation

beyond 2020. PMI has been implementing a verifiable Monitoring Framework (MF) for Sustainable Leaf Curing Fuel to monitor the progress towards its global targets. MF is composed of four principles, and Principle 2 "Be Sustainable" focuses on sustainability and traceability of the fuel source with 5 indicators. Purpose is to ensure that all origins adopt fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). PMI supports and engages in capacity building activities with tobacco suppliers to ensure they comply with the MF annually. Through the annual third-party verification process, which includes on-site visits, we ensure and report progress against targets every year. As a result of the 3rd party audit that was conducted in 2021, 22 out of 24 tobacco suppliers assessed achieved 100% compliance with PMI's MF. The remaining 2 suppliers were not considered to be material from a deforestation risk perspective by the MF program auditor and being new tobacco suppliers for 2021 they have been engaged to align their practices with MF compliance requirements. Overall, the audit results recognize the compliance with MF for the contracted Virginia flue cured tobacco volume purchased by PMI in 2021.

Target reference number

Target 3

Forest risk commodity

Timber products

Type of target

Engagement with direct suppliers

Description of target

To be defined as sustainable, tobacco production depends, among other criteria, on the sustainable management of forests in the growing areas we source tobacco from. We have therefore set clear goals and programs to tackle deforestation and prevent forest degradation in our tobacco supply chain together with our direct suppliers. We engage with and expect all our direct suppliers to support us in the implementation of our Zero Deforestation Manifesto and the achievement of the target of 100% of zero net deforestation of managed natural forest in our tobacco supply chain by 2025. With the achievement of this target, we expect to ensure zero net deforestation of managed natural forests and no conversion of natural ecosystems within our tobacco supply chain.

Linked commitment

Zero net/gross deforestation

Traceability point

<Not Applicable>

Third-party certification scheme

<Not Applicable>

Start year

2019

Target year

2025

Quantitative metric

<Not Applicable>

Target (number)

<Not Applicable>

Target (%)

100

% of target achieved

37

Please explain

PMI's environmental strategy aims to mitigate the risk of negative environmental impacts and combating forest loss is critical for PMI as we depend on wood-based materials for our products, and a significant part of our environmental management efforts is devoted to halting deforestation and allow for forests to provide ecosystem services that are at the base of sustainable raw material production. The most relevant source of risk of deforestation from tobacco arises from the Virginia flue-cured (FC) tobacco curing process where firewood is used. To address the risk and prevent deforestation in its supply chain, PMI has implemented several programs including Good Agriculture Practices (GAP), the Monitoring Framework for Sustainable Leaf Curing Fuel (MF) and the Responsible Sourcing Practices (RSP) that prescribe the environmental protection. For the tobacco supply chain, we have set a target of zero net deforestation of managed natural forest for the usage of firewood by 2025. We work with all our direct suppliers towards traceable and sustainable wood fuels together with a thorough verification process by an independent 3rd party to assure the protection of forests against deforestation. In 2021, 37 percent of our purchased tobacco was externally verified as compliant with the ZDM's net zero criteria.

Engagements with our direct suppliers are fundamental for the implementation of our MF and Zero Deforestation Manifesto and for the achievement of the target of 100% of zero net deforestation of managed natural forest in our tobacco supply chain by 2025. Our direct suppliers are fundamental for the success of the program, incl. the successful deployment of forest monitoring tools, by establishing traceability to the point of harvest and documenting sustainable forestry practices. Our tobacco suppliers have direct connections to farmers that rely on firewood for curing and, in most of the cases, direct access to the forest woodlot managers that need to provide evidence of the traceability and sustainable management of the forest, in accordance with the MF requirements, to be validated as an accepted vendor for firewood. We are working to reach and maintain our zero net deforestation requirements.

Target reference number

Target 4

Forest risk commodity

Timber products

Type of target

Traceability

Description of target

We are committed to source wood-based materials from traceable, sustainable, and legal sources, while protecting the rights and livelihoods of local communities. We have set a target to achieve Zero gross deforestation of primary and protected forest associated with PMI's paper and pulp-based materials supply chain by 2025. We have set a target to achieve 100% of the paper and pulp-based materials purchased without risk of deforestation of primary and protected forest.

Linked commitment

Zero net/gross deforestation

Traceability point

Forest management unit

Third-party certification scheme

<Not Applicable>

Start year

2021

Target year

2025

Quantitative metric

<Not Applicable>

Target (number)

<Not Applicable>

Target (%)

100

% of target achieved

0

Please explain

In our tobacco supply chain, we have achieved zero gross deforestation of primary and protected forests in 2020, we are now extending this commitment to our paper and pulp-based products supply chain. PMI committed to achieving zero gross deforestation of primary and protected forest associated with PMI's paper and pulp-based materials supply chain by 2025

For our paper and pulp-based sourced materials, we designed a risk assessment in 2021 that embeds the criteria of the National Risk Assessment (NRA) of the Forest Stewardship Council (FSC). We selected 17 criteria relevant to our paper and pulp-based supply chain and applied them to the list of countries from which we source. This allowed us to identify the following origin countries as at high risk to meet our zero gross deforestation target: Brazil and Indonesia. We plan to establish an assurance system covering all the countries that are part of our paper and pulp-based supply chain and will place particular focus on the high-risk origins (where we may deploy on-the-ground audits, as needed). We intend to leverage satellite monitoring moving forward, replicating the operating model in place in our tobacco supply chain, to analyze deforestation risk in the areas where our paper and pulp-based product suppliers operate. Working with an external party to implement our zero-deforestation assurance framework, we will leverage tools such as a complementary risk assessment based on forestry news feeds.

In our paper and pulp-based materials supply chain, we concentrated our efforts in 2021 on communicating our updated Zero Deforestation Manifesto to the suppliers of direct materials used in our products and device packaging. We engaged intensively with them, providing detailed implementation guidelines and hosting workshops and one-to-one training. By year-end, these suppliers had all committed to help achieve our 2025 target and agreed to undergo a compliance assessment in 2022.

F6.2

(F6.2) Do you have traceability system(s) in place to track and monitor the origin of your disclosed commodity(ies)?

	Do you have system(s) in place?	Description of traceability system	Exclusions	Description of exclusion
Timber products	Yes	<p>PMI has a harmonized and verifiable monitoring framework (MF) to monitor progress towards its sustainable tobacco leaf curing fuel roadmap's goals. Principle 2 of the MF focuses on sustainability and traceability and has one specific indicator focusing on tracing and documenting all the wood-based fuel used for tobacco curing activities to the source. This information is provided by farmers and curing centers annually and is used by PMI to identify sources of wood-based fuel. PMI requires the following documentation for audits:</p> <p>a. Purchased fuel: receipts of purchased fuels, incl. the name of the vendor and amount of fuel purchased. For biomass, verification of the source of the fuel is needed, incl. a report containing evidence of source. Suppliers with intermediaries need to provide a study from reliable sources such as universities, international organizations (e.g. FAO) and research institutes, describing the source of the purchased fuel.</p> <p>b. Farmer and community woodlot, commercial plantations from tobacco suppliers and self-collected wood-fuel: evidence that proves the source and amount of purchased fuel by specific source. For example, tobacco suppliers in Brazil using wood pellets to cure tobacco can submit contracts and receipts from the wood pellets supplier, and the correspondent government permits certifying the timber plantation.</p> <p>In 2021, an external audit was carried out to assess the documented evidence on traceability and sustainability of wood-based material used for curing. It is expected for all tobacco suppliers to maintain and improve the level of traceability achieved in 2021.</p> <p>All our paper and pulp-based suppliers must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to RSP engaging via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains. Suppliers are requested to provide traceability data regarding source of origin at national or subnational level and to provide information on certifications (FSC/PEFC). In 2021, 99% of our paper and pulp-based products' volume was traceable at least at national level, and at sub national level for high-risk countries.</p>	Not applicable	<Not Applicable>
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.2a

(F6.2a) Provide details on the level of traceability your organization has for its disclosed commodity(ies).

Forest risk commodity	Point to which commodity is traceable	% of total production/consumption volume traceable
Timber products	State or equivalent	69.1
Timber products	Forest management unit	22.7
Timber products	Municipality or equivalent	7.6
Timber products	Mill	0.2
Timber products	Country	0.3
Timber products	Not traceable	0.1

F6.3

(F6.3) Have you adopted any third-party certification scheme(s) for your disclosed commodity(ies)?

	Third-party certification scheme adopted?	% of total production and/or consumption volume certified
Timber products	Yes	48
Palm oil	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

F6.3a

(F6.3a) Provide a detailed breakdown of the volume and percentage of your production and/or consumption by certification scheme.

Forest risk commodity
Timber products

Third-party certification scheme

FSC Chain of Custody

Chain-of-custody model used

<Not Applicable>

% of total production/consumption volume certified

13

Form of commodity

Primary packaging

Secondary packaging

Volume of production/ consumption certified

134151

Metric for volume

Metric tons

Is this certified by more than one scheme?

No

Please explain

PMI's paper and pulp-based business partners must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to the RSP engaging with them via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains. In 2021, we monitored suppliers' compliance to our Zero Deforestation Manifesto and a strong component of it relies on fiber certification (through FSC, PEFC and SFI) for our paper and board suppliers. In 2021 we maintained the 3rd party certification system through the following actions: i. we require our suppliers to comply with the strict requirements of certification standards (traceability with a chain of custody approach, risk-based assessment of their sourcing areas) but we have not implemented a mandatory paper-trail that goes with it (e.g., transaction numbers on invoices); ii. we also receive from our suppliers their CoC certificates together with a declaration of the percentage of certified product they deliver to us and the list of fiber origins; iii. the data collected from the suppliers undergo 3rd party verification and this process will be done annually. Additionally, PMI implemented the following actions to improve the 3rd-party certification system: In 2021, we started to source, certified material from 3 suppliers and in 2022 we are tentatively expanding to possibly reach 10-15 of them. In 2021 we have evaluated options to publicly report certified volumes including the FSC Pilot Program Scheme for 2022. Periodic audits during the 2-year pilot project timeframe are foreseen to maintain the status and having the possibility to report the volumes of certified fiber purchased. We also request suppliers to move to deliver certified product, introducing this preferential criterion in our supplier evaluation scorecard that is used in tenders and business awards. In 2021, we calculated that 48% of the volume we sourced for our packaging were declared as certified fibers. Out of the 48%, 13% of it is certified to CoC Forest Stewardship Council (FSC).

Forest risk commodity

Timber products

Third-party certification scheme

FSC Controlled Wood

Chain-of-custody model used

<Not Applicable>

% of total production/consumption volume certified

1

Form of commodity

Primary packaging

Secondary packaging

Volume of production/ consumption certified

13884

Metric for volume

Metric tons

Is this certified by more than one scheme?

No

Please explain

PMI's paper and pulp-based business partners must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to the RSP engaging with them via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains. In 2021, we monitor suppliers' compliance to our Zero Deforestation Manifesto and a strong component of it relies on fiber certification (through FSC, PEFC and SFI) for our paper and board suppliers. In 2021 we maintained the 3rd party certification system through the following actions: i. we require our suppliers to comply with the strict requirements of certification standards (traceability with a chain of custody approach, risk-based assessment of their sourcing areas) but we have not implemented a mandatory paper-trail that goes with it (e.g., transaction numbers on invoices); ii. we also receive from our suppliers their CoC certificates together with a declaration of the percentage of certified product they deliver to us and the list of fiber origins; iii. the data collected from the suppliers undergo 3rd party verification and this process will be done annually. Additionally, PMI implemented the following actions to improve the 3rd party certification system: In 2021, we started to source, certified material from 3 suppliers and in 2022 we are tentatively expanding to possibly reach 10-15 of them, in 2021 we have evaluated options to publicly report certified volumes including the the FSC Pilot Program Scheme for 2022. Periodic audits during the 2-year pilot project timeframe are foreseen to maintain the status and having the possibility to report the volumes of certified fiber purchased. We also request suppliers to move to deliver certified product, introducing this preferential criterion in our supplier evaluation scorecard that is used in tenders and business awards. In 2021, we calculated that 48% of the volume we sourced for our primary packaging and secondary were declared as certified fibers. Out of the 48%, 1% of it is certified to FSC) Controlled wood.

Forest risk commodity

Timber products

Third-party certification scheme

PEFC Chain of Custody

Chain-of-custody model used

<Not Applicable>

% of total production/consumption volume certified

6

Form of commodity

Primary packaging

Secondary packaging

Volume of production/ consumption certified

58572

Metric for volume

Metric tons

Is this certified by more than one scheme?

No

Please explain

PMI's paper and pulp-based business partners must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to the RSP engaging with them via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains. In 2021, we monitor suppliers' compliance to our Zero Deforestation Manifesto and a strong component of it relies on fiber certification (through FSC, PEFC and SFI) for our paper and board suppliers. Unfortunately, as a tobacco company, we are not allowed to display any sustainability logo on our products. Due to this in 2021 we maintained the 3rd party certification system through the following actions: i. we require our suppliers to comply with the strict requirements of certification standards (traceability with a chain of custody approach, risk-based assessment of their sourcing areas) but we have not implemented a mandatory paper-trail that goes with it (e.g., transaction numbers on invoices); ii. we also receive from our suppliers their CoC certificates together with a declaration of the %certified product they deliver to us and the list of origins where the fiber is coming from; iii. the data collected from the suppliers undergo 3rd party verification and this process will be done annually to all suppliers.

Additionally PMI implemented actions to improve the third-party certification system, In 2021, we started to source, directly to PMI plants, certified material from 3 suppliers and in 2022 we are tentatively expanding to possibly reach 10-15 of them. Furthermore, we request suppliers to move to process certification (CoC) or deliver product certified, introducing this preferential criterion in our supplier evaluation scorecard that is used in tenders and business awards. In 2021, we calculated that 48% of the volume we sourced for our primary packaging and secondary were declared as certified fibers. Out of the 48%, 6% of it is certified to CoC PEFC).

Forest risk commodity

Timber products

Third-party certification scheme

Other, please specify (Multiple certified forest areas i.e. Forests covered by both PEFC-and FSC Chain of Custody and SFI)

Chain-of-custody model used

Not applicable

% of total production/consumption volume certified

28

Form of commodity

Primary packaging

Secondary packaging

Volume of production/ consumption certified

291674

Metric for volume

Metric tons

Is this certified by more than one scheme?

Yes

Please explain

PMI's paper and pulp-based business partners must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to the RSP engaging with them via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains. In 2021 we maintained the 3rd party certification system through the following actions: i. we require our suppliers to comply with the requirements of certification standards (traceability with a chain of custody approach, risk-based assessment of their sourcing areas) but we have not implemented a mandatory paper-trail that goes with it (e.g., transaction numbers on invoices); ii. we also receive from our suppliers their CoC certificates together with a declaration of the %certified product they deliver to us and the list of origins where the fiber is coming from; iii. the data collected from the suppliers undergo 3rd party verification and this process will be done annually to all suppliers.

PMI implemented actions to improve the third-party certification system. In 2021, we started to source, directly to PMI plants, certified material from 3 suppliers and in 2022 we are tentatively expanding to reach 10-15 of them. We are working to adhere in 2022 to the FSC Pilot Program Scheme that will allow us to report publicly and officially the weight volumes of Certified Purchased Volumes. Periodic audits during the 2-year pilot project timeframe are foreseen to maintain the status and having the possibility to report out the volumes of certified fiber purchased. Furthermore, we request suppliers to move to process certification (CoC) or deliver product certified, introducing this preferential criterion in our supplier evaluation scorecard that is used in tenders and business awards. In 2021, we calculated that 48% of the volume we sourced for our primary packaging and secondary were declared as certified fibers. Out of the 48%, 28% of it is certified to multiple certification schemes. Our suppliers declared to have certifications from CoC FSC, CoC PEFC and SFI.

F6.4

(F6.4) For your disclosed commodity(ies), do you have a system to control, monitor, or verify compliance with no conversion and/or no deforestation commitments?

	A system to control, monitor or verify compliance	Comment
Timber products	Yes, we have a system in place for our no conversion and/or deforestation commitments	<Not Applicable>
Palm oil	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

F6.4a

(F6.4a) Provide details on the system, the approaches used to monitor compliance, the quantitative progress, and the non-compliance protocols, to implement your no conversion and/or deforestation commitment(s).

Forest risk commodity

Timber products

Operational coverage

Supply chain

Description of control systems

For our paper and pulp-based products, we designed a risk assessment in 2021 that embeds the criteria of the National Risk Assessment (NRA) of the Forest Stewardship Council (FSC). We selected 17 relevant criteria and applied them to the list of countries from which we source. Country risk assessment has been performed and has identified risk levels for each. In 2022 we plan to have an external auditor performing a compliance desk audit or on-site audit for all relevant suppliers. We also intend to leverage satellite monitoring moving forward, replicating the operating model in place in our tobacco supply chain, to analyze deforestation risk in the areas where our suppliers operate. Monitoring system to specifically ascertain compliance with our no deforestation commitments is implemented in all of tobacco growing areas (TGA) through the use of Global Forest Watch (GFW) Pro, we were able to monitor deforestation risk in 57 mio ha of land area linked to PMI's supply chain in 2021.

Monitoring and verification approach

Geospatial monitoring tool

Third-party verification

% of total volume in compliance

91-99%

% of total suppliers in compliance

91-99%

Response to supplier non-compliance

Retain & engage

Procedures to address and resolve non-compliance with suppliers

Developing time-bound targets and milestones to bring suppliers back into compliance

Providing information on appropriate actions that can be taken to address non-compliance

Please explain

In 2021, we have shared with our paper and pulp-based suppliers the Zero Deforestation Manifesto requesting commitment to its targets and roadmap. We use our internally developed forest risk classification system to define the supporting evidence that must be produced by each supplier for its origin countries to obtain validation of compliance through external audits. These are being performed annually as a documental review and with a frequency of three years as on the ground audit for high risk countries. The letter of commitment that we request to suppliers to adhere to the program and to the Zero Deforestation Manifesto targets have been signed by 100% of engaged suppliers.

For the tobacco supply chain, we have set a target of zero net deforestation of managed natural forest for firewood by 2025. We work with all our direct suppliers to move towards traceable and sustainable wood fuels together with a thorough verification process by a third-party to assure the protection of forests against deforestation and the deforestation risk is monitored annually via geospatial tools.

For instances that suppliers are not yet fully compliant, time bound actions plans are being developed together with the suppliers and progress is being monitored on a regular basis. The absence of clear commitment to act on issues identified or a persistent lack of action and improvement, may lead to contractual implications for the suppliers.

F6.6

(F6.6) For your disclosed commodity(ies), indicate if you assess your own compliance and/or the compliance of your suppliers with forest regulations and/or mandatory standards.

	Assess legal compliance with forest regulations	Comment
Timber products	Yes, from suppliers	<Not Applicable>
Palm oil	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

F6.6a

(F6.6a) For your disclosed commodity(ies), indicate how you ensure legal compliance with forest regulations and/or mandatory standards.

Timber products

Procedure to ensure legal compliance

PMI's Good Agricultural Practices (GAP) program is a contractual requirement for all our leaf suppliers and contracted farmers, and mandates that local legal requirements are to be strictly followed. The program prescribes the compliance with forest regulations for the sustainable wood-based materials in our agricultural supply chain. GAP's implementation is supported on the ground by qualified and trained field technicians and is verified yearly through a third party. Furthermore, for the Virginia Flue-Cured tobacco (FCV) markets, the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels requires tobacco suppliers to ensure that 100% of the wood-based fuels used for tobacco curing is sustainable and traceable, ensuring compliance with local forest regulations. Since 2018 a third-party audit is in place to ensure and verify the MF implementation and every year an audit is being conducted.

All our paper and pulp-based business partners must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to the RSP engaging with them via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains. Suppliers are requested to answer a set of questions related to environmental compliance including if they have in place a procedure to regularly update its register of applicable environmental legislation and regulations, through which the compliance with forest regulations and/or mandatory standards are addressed. In addition, high-risk suppliers undergo a desktop audit. According to the questionnaire results and, as applicable, desktop audit, the supplier risk profile may be re-evaluated and require further due diligence. E.g., a medium-risk supplier that did not achieve the minimum acceptable RSP compliance will be required to undergo a desktop and/or an on-site audit. Following both types of audits, corrective action plans are defined and implemented. PMI considers these programs and tools to be sufficient to ensure legal compliance within operations and supply chain, as these are aligned with all local regulation as well as PMI's policies, which are often more stringent.

Country/Area of origin

Argentina
Australia
Brazil
Indonesia
Mozambique
Philippines
Thailand

Law and/or mandatory standard(s)

General assessment of legal compliance
Australia Illegal Logging Prohibition Act
Forest Law - Argentina
Brazilian Forest Code
Other, please specify (Responsible Sourcing Principles; Good Agricultural Practices; Monitoring Framework for Sustainable Leaf Curing Fuel, Zero Deforestation Manifesto)

Comment

As stated in our Zero Deforestation Manifesto we are committed to sourcing wood-based materials from traceable, sustainable and legal sources. All our business partners must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to the RSP engaging with them via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains. During this process, we ask our suppliers to demonstrate, by providing physical evidence, that they keep and regularly update a register of environmental legislation, that their environmental strategy and plans in place meet relevant local environment protection legislation, and that they have a documented Environmental Management System that has undergone a third party assurance / certification to ISO 14001:2015 or equivalent which requires a monitoring of legal environmental compliance.

F6.7

(F6.7) Are you working with smallholders to support good agricultural practices and reduce deforestation and/or conversion of natural ecosystems?

	Are you working with smallholders?	Type of smallholder engagement approach	Smallholder engagement approach	Number of smallholders engaged	Please explain
Timber products	Yes, working with smallholders	Supply chain mapping Capacity building Financial and commercial incentives	Supplier questionnaires on environmental and social indicators Developing or distributing supply chain mapping tool Supplier audits Offering on-site technical assistance and extension services Providing agricultural inputs Disseminating technical materials Organizing capacity building events Investing in pilot projects Supporting smallholders to clarify and secure land tenure	240000	Our main strategy is through the implementation of PMI's Good Agricultural Practices (GAP) program, that 100% of our tobacco suppliers and contracted farmers are engaged, with an estimated 240,000 smallholder farmers (out of 253,813) covered by the program in 2021. GAP's implementation is supported on the ground by qualified and trained field technicians (FT). During regular on-site visits FT performs a range of activities, from dissemination of technical materials, provision of agricultural inputs (e.g., fertilizers), to data collection on social and environmental indicators. In collaboration with our suppliers, capacity building and training sessions are organized for smallholder farmers to increase capabilities on the ground and support the correct implementation of GAP and to prevent and reduce deforestation and/or conversion of natural ecosystems at the growing areas we source from. Based on a continuous improvement approach, pilot projects are developed and implemented within our tobacco supply chain, incl. those aimed at smallholder farmers. In 2021, Philip Morris Brazil in partnership with Produzindo Certo Aliança da Terra, continues in the project to trial the Produzindo Certo Platform (PCP), which will be expanded until year 2022, with the aim of bringing to partner farmers a guiding and monitoring tool to improve farming practices, bringing social and environment sustainability improvements. The expansion of Produzindo Certo in 2021 was decided after a successful pilot carried out in 2020 with the participation of 123 farmers, the scope of the program was extended to cover nearly 2,300 farmers. Those farmers were visited by specialists that provides each farmer a social and environmental diagnosis of their farm, as well as tailored action plans highlighting opportunities for growth and development. Farmers recognize that following the recommendations of this team will better prepare them for the future, making their farms more sustainable, productive, and fully compliant with market demands and local legislation. Furthermore, for the Virginia Flue-Cured tobacco (FCV) markets, the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels requires tobacco suppliers to provide capacity building activities to local stakeholders, incl. smallholder farmers. Annually a third-party audit is in place to verify the MF implementation.
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.8

(F6.8) Are you working with your direct suppliers to support and improve their capacity to comply with your forests-related policies, commitments, and other requirements?

	Are you working with direct suppliers?	Type of direct supplier engagement approach	Direct supplier engagement approach	% of suppliers engaged	Please explain
Timber products	Yes, working with direct suppliers	Capacity building	Offering on-site training and technical assistance Organizing capacity building events	61-70%	<p>In 2021, following the publication of our updated Zero Deforestation Manifesto (ZDM), our main strategy of engagement is to organize webinars and training sessions with our most relevant suppliers, covering topics related to deforestation risks, in our tobacco supply chain, as well as in the paper and pulp-based products supply chain (Tier 1 are acetate tow, shipping cases, board and fine papers). Webinars were carried out aimed at sharing with our supplier base the content of the commitments taken by PMI towards our long term forest positive strategy, as well as our two-pronged approach: First - engaging with 21 suppliers of tobacco, and 26 paper and pulp-based products to move towards traceable and sustainable raw material sourcing; second, Third-party verification.</p> <p>In the updated ZDM published in February 2021, PMI has extended the reach of the commitments:</p> <ul style="list-style-type: none"> - from zero net deforestation on Primary and protected forests to Zero gross - new product categories [Marketing materials, case labels] - no conversion of natural ecosystems. - free prior informed consent. <p>Similar to the training sessions that were conducted in the roll out the ZDM and with the release of the updated version of the ZDM, new webinars and trainings have been organized in 2021, to communicate extended expectations and collect suppliers' commitments accordingly.</p> <p>In particular 4 webinar sessions were organized for 26 Primary Pulp-Based Product suppliers (PPBP), followed by some customized clarification meetings.</p> <p>A post-webinars survey was conducted among the participants; reporting 85% satisfaction on clarity on ZDM.</p> <p>As final outcome, in line with our goal, we received from 26 suppliers their signed commitment on ZDM and related guidelines from all PPBP suppliers.</p> <p>A similar approach for our Secondary Pulp-based products suppliers (SPBP) is planned to be implemented in 2022.</p>
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.9

(F6.9) Are you working beyond your first-tier supplier(s) to manage and mitigate deforestation risks?

	Are you working beyond first tier?	Type of engagement approach with indirect suppliers	Indirect supplier engagement approach	Please explain
Timber products	Yes, working beyond first tier	Supply chain mapping Capacity building	Supplier questionnaires on environmental and social indicators On-site meetings with indirect suppliers Supplier audits Offering on-site training and technical assistance Disseminating technical materials Participating in workshops Investing in pilot projects	Our main strategy is through the implementation of PMI's Good Agricultural Practices (GAP) program, that 100% of our tobacco suppliers and an estimated 253,813 contracted farmers are engaged and participate as of 2021. GAP's implementation is supported on the ground by qualified and trained field technicians (FT) and is verified through the specific activities managed on sustainability such as the Monitoring Framework (MF) for sustainable curing fuels. During regular on-site visits FT perform a range of activities from the dissemination of technical materials, provision of agricultural inputs (e.g., fertilizers), to data collection on social and environmental indicators. In collaboration with our suppliers, capacity building and training sessions are organized for farmers to increase capabilities on the ground, support the correct implementation of GAP and to prevent and reduce deforestation and/or conversion of natural ecosystems at the growing areas we source from. Based on a continuous improvement approach pilot projects are implemented within our tobacco supply chain, including indirect suppliers such as service providers. In 2021, Philip Morris Brazil continues working with Produzindo Certo Aliança da Terra, in the project to trial the Produzindo Certo Platform (PCP), which is planned to be expanded in year 2022. The platform aims to enable partnership between farmers, leaf suppliers and the service provider, providing a guiding and monitoring tool to improve farming practices, bringing social and environmental sustainability improvements. The approach consists of 3 phases: i) environmental diagnosis of the farm; ii) development of an action plan and iii) monitoring and evaluation of achieved results. The program monitors the farm's forestry management practices by assessing legal conformity, monitoring of areas of preservation and native vegetation, firewood source and consumption and firefighting equipment availability. After a successful pilot carried out in 2020 with the participation of 123 farmers, the scope of the program was extended during 2021 to cover nearly 2,300 farmers. Furthermore, for the Virginia Flue-Cured tobacco (FCV) markets, the MF requires tobacco suppliers to provide capacity building activities to local stakeholders, incl. indirect suppliers. Every year a third-party audit is in place to ensure and verify the MF implementation.
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.10

(F6.10) Do you engage in landscape (including jurisdictional) approaches to progress shared sustainable land use goals?

	Do you engage in landscape/jurisdictional approaches?	Primary reason for not engaging in landscape and/or jurisdictional approaches	Please explain why your organization does not engage in landscape/jurisdictional approaches, and describe plans to engage in the future
Row 1	Yes, we engage in landscape/jurisdictional approaches	<Not Applicable>	<Not Applicable>

F6.10a

(F6.10a) Indicate the criteria you consider when prioritizing landscapes and jurisdictions for engagement in collaborative approaches to sustainable land use and provide an explanation.

	Criteria for prioritizing landscapes/jurisdictions for engagement	Please explain
Row 1	<p>Company actions align with already established jurisdictional and/or landscape initiative priorities in area</p> <p>Company has operational presence in area</p> <p>High commodity sourcing footprint from area</p> <p>High levels of production by independent smallholders</p> <p>Opportunity for smallholder inclusion</p> <p>Opportunity for increased human well-being in area</p> <p>Opportunity to implement Nature-based Solutions</p> <p>Opportunity to protect natural ecosystems</p> <p>Opportunity to restore natural ecosystems</p> <p>Response to regulation</p> <p>Risk of deforestation/conversion</p> <p>Risk of forest/land degradation</p> <p>Risk of land conflict</p> <p>Risk of supplier non-compliance in area</p> <p>Supply of commodities strategically important</p>	<p>PMI has two main mechanisms for engagement in collaborative approaches to sustainable and use: Good Agricultural Practices (GAP) and the Monitoring Framework (MF). Since 2002 PMI launched its Good Agricultural Practices (GAP), defining the principles and standards that must be met by all who grow and supply tobacco to PMI. GAP also aims to engage with suppliers and smallholder farmers to improve socioeconomic conditions and protect the rights of the people and local communities involved in tobacco production. Our Monitoring Framework for Sustainable Leaf Curing Fuel was launched in 2016 and since then it has been our main initiative to tackle deforestation risks. Our GAP program is applied in all tobacco growing areas (TGA) where PMI sources tobacco from, considering the surrounding ecosystems with the goal of minimizing negative impacts in the relevant landscapes and jurisdictions.</p> <p>PMI prioritizes landscapes for engagement based on sourcing footprints, and implements relevant nature-based solutions together with tobacco suppliers to ensure full monitoring and implementation of GAP and MF. PMI also conducts deforestation risk assessments in order to identify high risk markets and to be able to prioritize actions to be implemented to avoid land use change and deforestation risks. We collect data on multiple environmental indicators and monitors the percentage of compliant farmers. The results are used internally to track PMI progress towards its forest commitments, to identify and engage suppliers and farmers failing to adopt best practices or from high-risk areas, and to make decisions regarding projects to be implemented. As part of our GAP and MF, adherence to local regulations is also a mandatory requirement to be done by our tobacco suppliers and farmers. Support is being provided in order to ensure compliance to local regulations.</p> <p>PMI also prioritize projects that provides opportunities for implementation of nature-based solutions, protection and restoration of natural ecosystem, biodiversity improvement. Implementation of these projects provides multiple benefits to the ecosystem where we operate and to the socioeconomic condition improvement of our farmers.</p>

F6.10b

(F6.10b) Provide details of your engagement with landscape/jurisdictional approaches to sustainable land use during the reporting year.

Country/Area

Philippines

Name of jurisdiction or landscape area

Ilocos Sur and Ilocos Norte

Is the landscape defined by administrative boundaries of sub-national governments and does the approach have active government involvement?

Yes, the landscape is defined by administrative boundaries and the approach has active government involvement

Brief description of landscape/ jurisdictional approach

PMI is committed to achieve a deforestation-free supply chain for our tobacco and paper and pulp-based materials through the implementation of our Monitoring Framework (MF) for sustainable tobacco curing fuel and Zero Deforestation Manifesto (ZDM) to avoid deforestation risk in our supply chains. As part of the MF, tobacco suppliers must have a stakeholder engagement plan where relevant regulators are identified and engaged with based on specific topics, and where pertinent information is exchanged. PMI and our tobacco suppliers engage with the local regulators in Ilocos Philippines which is one of the tobacco growing areas (TGA) where PMI sources tobacco from, to ensure farmers will be able to adhere to the local regulatory requirement and at the same time be able to effectively manage woodlots where sustainable wood-based fuel will be used for curing tobacco. The collaboration also supports the local government on their implementation of the local regulation. An example is the engagement between tobacco suppliers in the Philippines with the Department of Environment and Natural Resources (DENR) along with the National Tobacco Association through meetings and workshops. As part of this engagement, supplier and the DENR have been sharing information to understand the availability of firewood in the regions and to manage the risk of deforestation by ensuring that farmers have access to legal sources of firewood and ensuring compliance to local regulations.

Forest risk commodities relevant to this landscape/jurisdictional approach

Timber products

Type of engagement

Convener: High level of engagement in set-up, design, management and implementation

Partner: Shared responsibility in the implementation of multiple goals

Supporter: Implement activities to support at least one goal

Description of engagement

PMI's Zero Deforestation Manifesto sets targets on sustainability and traceability of wood fuels used in the curing of Virginia Flue-Cured tobacco (FCV) purchased. To monitor progress against those targets, we use Monitoring Framework (MF) for Sustainable Leaf Curing Fuels. The MF must be implemented by our suppliers in all flue-cured sourcing markets. To meet the MF standards, the sustainability and traceability criteria used must be also aligned to the ones implemented by local governmental institutions. This allows local suppliers to provide valid documentation to support their assertion of compliance, supporting conformity against the MF, and, therefore, supporting the overall achievement of PMI's environmental strategy.

PMI and its suppliers jointly with national and local administrations defined the interface to ensure the necessary traceability mechanism is in place and to enable the sustainability criteria for compliance. In the Philippines Ilocos Sur and Norte, for example, in 2019 our suppliers engaged with the Department of Environment and Natural Resources (DENR) and National Tobacco administration (NTA) in the provinces growing flue-cured tobacco for PMI to review the applicable criteria for traceability and sustainability of wood fuels and align to their existing Technical Bulletin (TB). As a result, a new TB was issued by the DENR, publishing the set of criteria in line with the MF applicable to the local jurisdictions. This enabled local suppliers to ensure the MF requirements are properly implemented by local farmers and wood vendors, this defined a more straightforward process to request tree plantation and harvesting permits. In 2021, all of the farmers and wood vendors comply with the MF and securing permits as imposed by the local regulation.

Goals supported by engagement

Decreased ecosystem degradation rate

Avoided deforestation/conversion of other natural ecosystems
Simplified administrative requirements in place for smallholders to easier gain access to the market
Local government policy development aligned with landscape goals
Legalization of production
Increased commodity traceability in landscape/jurisdiction
Reliable landscape monitoring/data collection system
Smallholders mapped in landscape/jurisdiction

Company actions supporting approach

Co-design and develop goals, strategies and an action plan with timebound targets and milestones for the initiative
Help establish an entity responsible for managing the initiative and its activities with clear and transparent governance roles, responsibilities and decision-making for different stakeholders in that initiative
Identify opportunities for public private collaboration
Share spatial data and land management plans with other stakeholders in the landscape/jurisdiction
Support land use planning in the landscape/jurisdiction

Implementation partner(s)

In the Philippines, together with our tobacco suppliers, we collaborated with the Department of Environment and Natural Resources (DENR) and National Tobacco Administration (NTA) on the amendment and publishing the set of criteria in line with the MF applicable to the local jurisdictions.

Engagement start year

2019

Engagement end year

Please specify (2030)

Total investment over the project period (currency)

Details of your investment

Type of assessment framework

Specific initiative defined framework

Is progress monitored and publicly reported on?

Yes, progress is monitored but not publicly reported on

State the achievements of your engagement so far, and how progress is monitored

In the Philippines, the progress is being monitored at farm-by-farm level. The Leaf technicians of our tobacco suppliers collect information on the traceability and sustainability of the wood curing fuel. This is being reported every year to show the compliance against our Monitoring framework and this is being validate by a 3rd party annually. The suppliers also support their farmers to secure land ownership permit of their woodlot and also to secure harvesting permit according to the local regulations.

Country/Area

Brazil

Name of jurisdiction or landscape area

Rio Grande do sul

Is the landscape defined by administrative boundaries of sub-national governments and does the approach have active government involvement?

Yes, the landscape is defined by administrative boundaries and the approach has active government involvement

Brief description of landscape/ jurisdictional approach

Since 2002 PMI launched its Good Agricultural Practices (GAP), defining the principles and standards that must be met by all who grow and supply tobacco to PMI. GAP also aims to engage with suppliers to improve socioeconomic conditions and protect the rights of the people and local communities involved in tobacco production. Through PMI's Good Agricultural Practices (GAP), PMI has been supporting sustainable tobacco production, with the environmental requirements of the program focusing on protecting, maintaining and promoting Biodiversity. Through the implementation of GAP and through the implementation of Auera which is a voluntary project developed by Philip Morris Brazil in partnership with Embrapa (Brazilian Agricultural Research Corporation from Ministry of Agriculture, Livestock, and Food Supply) aiming to manage biodiversity at farm level through practices that bring conservation benefits for the environment and to farmers through ecosystem services. Interventions under the Auera project will focus on creating tobacco farming areas that are benchmarks in sustainability. This will include recovering degraded areas, protecting water sources, creating ecological corridors, eliminating invasive exotic species from Permanent Protected Areas and improve the balance of ecosystem services to help maintain local fauna and flora.

Forest risk commodities relevant to this landscape/jurisdictional approach

Timber products

Type of engagement

Convener: High level of engagement in set-up, design, management and implementation

Partner: Shared responsibility in the implementation of multiple goals

Supporter: Implement activities to support at least one goal

Description of engagement

Since 2002 PMI launched its Good Agricultural Practices (GAP), defining the principles and standards that must be met by all who grow and supply tobacco to PMI. GAP also aims to engage with suppliers to improve socioeconomic conditions and protect the rights of the people and local communities involved in tobacco production. Through PMI's Good Agricultural Practices (GAP), PMI has been supporting sustainable tobacco production, with the environmental requirements of the program focusing on protecting, maintaining and promoting Biodiversity.

In Brazil Rio Grande do sul, PMI implemented the Auera project, developed by Philip Morris Brazil (PMB) in partnership with Embrapa (Brazilian Agricultural Research Corporation from Ministry of Agriculture, Livestock, and Food Supply) to manage biodiversity at farm level through practices that bring conservation benefits for the environment and to farmers through ecosystem services. PMB and Embrapa developed the project design and have the shared responsibility on the field level monitoring and guiding tobacco farmers in the implementation of practices that will help to improve the local ecosystem. Interventions will focus on creating tobacco farming areas that are benchmarks in sustainability. This will include action on recovering degraded areas, protecting water sources, creating ecological corridors, eliminating invasive exotic species from Permanent Protected Areas and improve the balance of ecosystem services to help maintain local fauna and flora.

Goals supported by engagement

Reduced emissions from land use change and/or agricultural production

Decreased ecosystem degradation rate

Avoided deforestation/conversion of other natural ecosystems

Local government policy development aligned with landscape goals
Increased commodity traceability in landscape/jurisdiction
Reliable landscape monitoring/data collection system
Smallholders mapped in landscape/jurisdiction
Habitat connectivity restored/improved
Landscape conservation
Landscape restoration
Systems in place to protect local community rights
Systems in place to protect workers' rights
Implementation of livelihood activities/practices that reduce pressure on forests
Improved capacity for community engagement in multi-stakeholder processes
Increased adoption of sustainable production practices
Improved productivity
Improved soil health
Improved water management practices
Uptake of regenerative agriculture practices
Increased adoption of sustainable production practices

Company actions supporting approach

Co-design and develop goals, strategies and an action plan with timebound targets and milestones for the initiative

Implementation partner(s)

In Brazil, PMI collaborated with Embrapa (Brazilian Agricultural Research Corporation from Ministry of Agriculture, Livestock, and Food Supply) to manage biodiversity at farm level through practices that bring conservation benefits for the environment and to farmers through ecosystem services. Also we have another initiative in Brazil collaborating with Produzindo Certo Aliança da Terra, in the project to trial the Produzindo Certo Platform (PCP), which will be expanded until year 2022. The platform has the aim to enable partnership between farmers, leaf suppliers and the service provider, providing a guiding and monitoring tool to improve farming practices, bringing social and environmental sustainability improvements.

Engagement start year

2019

Engagement end year

Please specify (2025)

Total investment over the project period (currency)

Details of your investment

Type of assessment framework

Specific initiative defined framework

Is progress monitored and publicly reported on?

Yes, progress is monitored but not publicly reported on

State the achievements of your engagement so far, and how progress is monitored

For the Auera project, the program is monitored through periodic meetings, videoconferences and call sessions. Interim results are discussed and analyzed by the project's executive committee, which has an equal number of members from Embrapa Clima Temperado, Philip Morris Brasil and PMI's regional team. The pre-diagnostics phase resulted in the identification of further areas for action, among which the monitoring of biodiversity to be fully implemented at PMB operations; and the training of internal stakeholders and local farmers on the topics related to biodiversity. Specific interventions to improve the sustainable tobacco production model continue to be assessed and include, among others, ecosystem restoration, identification of endangered species, and removal of invasive species. All representative tobacco growing areas where PMB operates was covered. A monitoring system was developed to be used to conduct field monitoring and farmers' interview in order to understand the field status about soil, water, climate change impact, flora and fauna, waste and other ecosystem related topics.

F6.11

(F6.11) Do you participate in any other external activities and/or initiatives to promote the implementation of your forests-related policies and commitments?

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Involved in multi-partnership or stakeholder initiatives

Country/Area

China

Subnational area

Please specify (● Provinces of Yunnan and Guizhou)

Initiatives

WBCSD Forests Solutions Group

Please explain

PMI is member of WBCSD's Forest Solutions Group (FSG), a global platform to include companies operating in the forest sector. FSG aims at building and sharing business solutions to lead sustainable development in the forest products sector. FSG through its member companies works to advance the bio-economy and to create a thriving forest sector that sustains healthy productive forests & people's well-being. FSG members adhere to a set of membership principles and report on key performance indicators to demonstrate leadership and progress on sustainability. As FSG member PMI must demonstrate leadership and commitment to sustainable development through active participations to working sessions and implementing outcomes of these sessions. To track and show individual and joint progress in sustainability, the FSG reports annually on the group's performance across six core environmental and societal commitments. As a sign of our shared commitment and as a condition of our FSG membership, PMI endorses and adheres to a set of Membership Principles and Responsibilities. PMI's participation in the FSG enables first-hand application of the outcomes from discussions and efforts shared by the group, which is characterized by thought leaders from companies highly committed to generate positive impact

through sustainable management of forests. These outcomes contribute to strengthen PMI sustainability strategy; PMI benefits from the collaborative exchange between members (including some of PMI's suppliers), e.g., to validate progress and results against our forest-related commitments and environmental strategy such as ensure no conversion of natural ecosystems, and halt deforestation in both our tobacco and pulp and paper supply chains which is included in our Zero Deforestation Manifesto. With our active participation commitment, in 2021, we have contributed to the works on FSG Forest Sector Nature Positive Roadmap to be soon published.

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Engaging with policymakers or governments

Country/Area

Philippines

Subnational area

Please specify (Ilocos Sur and Ilocos Norte)

Initiatives

<Not Applicable>

Please explain

In its Zero Deforestation Manifesto, PMI sets targets to achieve sustainability and traceability of wood fuels used in the curing of Virginia Flue-Cured tobacco (FCV) purchased. To monitor progress against those targets, PMI developed its Monitoring Framework (MF) for Sustainable Leaf Curing Fuels. The MF must be implemented by our suppliers in all flue-cured sourcing markets. Through a set of stringent indicators PMI verifies the suppliers' compliance with a third-party audit process. Concretely, Principle 2 of the MF focuses on sustainability and traceability of the wood fuel and has one specific indicator focusing on tracing and documenting all the wood fuel used for tobacco curing activities to the source. This information is provided to farmers and curing centers annually and is used by PMI to identify sources of fuel that would not meet PMI's sustainability criteria. To meet the MF standards, the sustainability and traceability criteria used must be also aligned to the ones implemented by local governmental institutions. This allows local suppliers to provide valid documentation to support their assertion of compliance, supporting conformity against the MF, and, therefore, supporting the overall achievement of PMI's environmental strategy.

In the past in certain jurisdictions such alignment was not yet fully observed. In these cases, PMI and its suppliers jointly with national and local administrations defined the interface to ensure the necessary traceability mechanism is in place and to enable the sustainability criteria for compliance to be reported against the MF. In the Philippines, for example, in 2019 our suppliers engaged with the Department of Environment and Natural Resources (DENR) in the provinces growing flue-cured tobacco for PMI to review the applicable criteria for traceability and sustainability of wood fuels and align to their existing Technical Bulletin (TB). As a result, a new TB was issued by the DENR, publishing the set of criteria in line with the MF applicable to the local jurisdictions. This publication enabled local suppliers to ensure the MF requirements are properly implemented by local farmers and wood vendors, this defined a more straightforward process to request tree plantation and harvesting permits. In 2021, all of the farmers and wood vendors comply with the MF and securing permits as imposed by the local regulation.

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Engaging with non-governmental organizations

Country/Area

Brazil

Subnational area

Please specify (Rio Grande do sul, Parana, Santa Catarina)

Initiatives

<Not Applicable>

Please explain

In achieving the target of 100% sustainable and traceable firewood, PMI is currently engaged in industry efforts to collaborate with NGOs and other stakeholders in areas such as reforestation, availability of sustainable firewood, among others. This approach is currently being implemented in Brazil and Philippines where all PMI tobacco suppliers come together and plan an industry strategy and collaborate with other stakeholders to achieve sustainability and traceability of fuel sources. For example, in Brazil, the implementation of the Monitoring Framework has triggered all three main tobacco suppliers to form an industry approach to manage sustainability and traceability of firewood. PMI and tobacco suppliers in Brazil have defined a roadmap to collectively update the sustainability study every 3 years from 2019 onwards. Taking an industry approach will help strengthen the efforts that help to achieve the 100% sustainability and traceability of firewood in Brazil

F6.12**(F6.12) Is your organization supporting or implementing project(s) focused on ecosystem restoration and protection?**

Yes

F6.12a

(F6.12a) Provide details on your project(s), including the extent, duration, and monitoring frequency. Please specify any measured outcome(s).

Project reference

Project 1

Project type

Forest ecosystem restoration

Primary motivation

Voluntary

Description of project

Auera is a voluntary project developed by Philip Morris Brazil (PMB) in partnership with Embrapa (Brazilian Agricultural Research Corporation from Ministry of Agriculture, Livestock, and Food Supply) to manage biodiversity at farm level through practices that bring conservation benefits for the environment and to farmers through ecosystem services.

In the past vacuum in regulatory requirements disincentivized farmers to keep Permanent Protected Areas (PPAs) or Legal Reserves on their land, while encouraging the opening of new production areas to increase their revenue streams with little concern about protecting local biodiversity and natural resources.

Additionally, past agricultural management practices resulted in erosion, an influx of invasive exotic plant species and degradation of remaining areas of native vegetation, all of which caused some sort of ecological imbalance.

In response, through its Good Agricultural Practices (GAP) Program, PMI has been supporting sustainable tobacco production, with the environmental requirements of the program focusing on protecting, maintaining and promoting Biodiversity.

The Auera Project is split into 3 phases: pre-diagnostics, full diagnostics and interventions on selected farms to build up models in southern Brazil.

The pre-diagnostics phase aims at verifying the current level of sustainability in areas contracted to grow tobacco for the company. This snapshot is used to define KPIs that will be monitored and analyzed in the full diagnostics phase, detailing the interventions required to maintain and improve balance in forest ecosystems.

Interventions will focus on creating tobacco farming areas that are benchmarks in sustainability. This will include recovering degraded areas, protecting water sources, creating ecological corridors, eliminating invasive exotic species from PPAs and improve the balance of ecosystem services to help maintain local fauna and flora.

KPIs will be defined during the final phase of the project to characterize natural resources, farm biodiversity management and protection, agricultural forestry systems to reinstate environmental conditions, reinstate and promote biodiverse habitats and maximize their use to drive crop diversification and sustainability.

Start year

2019

Target year

2022

Project area to date (Hectares)

14442

Project area in the target year (Hectares)

14442

Country/Area

Brazil

Latitude

-29.725173

Longitude

-52.464501

Monitoring frequency

Six-monthly or more frequently

Measured outcomes to date

Other, please specify (Pre-diagnosis and full diagnostic completed; interventions ongoing)

Please explain

The program is monitored through periodic meetings wherein interim results are discussed and analyzed by the project's executive committee, from Embrapa Clima Temperado, Philip Morris Brasil (PMB) and PMI's regional team. The pre-diagnostics phase resulted in the identification of further areas for action, among which the monitoring of biodiversity to be fully implemented by PMB; and the training of internal stakeholders and local farmers on the topics related to biodiversity. Specific interventions to improve the sustainable tobacco production model continue to be assessed and include, among others, ecosystem restoration, identification of endangered species, and removal of invasive species. Based on the interim results, KPIs were identified during the pre-diagnostics phase:

- Soil Mesofauna and Macrofauna
- Presence of a Permanent Protection Area
- Presence honeybees
- Endangered species by region
- Cultivation and use of bioactive plants
- Presence of ecological corridors

The Auera's training pillar includes in its scope a broad training program for qualification. The training plan was first implemented in 2019 and will continue through 2022 with specific sustainability and biodiversity protection courses developed in partnership with Embrapa. Training courses are conducted with both PMB employees involved in the initiative and tobacco farmers, combining awareness and technical guidelines for developing and implementing interventions on farms participating in the program. 85 PMB employees and field technicians (FT) were trained during the pre-diagnostic phase. In 2021, during the full diagnostic phase, a refresher training was conducted and covered 100% of PMB's field technicians and supervisors.

The full diagnostic period is still ongoing covering all representative tobacco growing areas where PMB operates in the south of Brazil. A monitoring system was developed to be used to conduct field monitoring and farmers' interview in order to understand the field status about soil, water, diversification, climate change impact, flora and fauna, waste and other ecosystem related topics.

Embrapa Clima Temperado is producing a range of technical training materials to be distributed to tobacco farmers, reflecting detailed recommendation about sustainable agricultural production and other related identified environment and social opportunities to be implemented.

F7. Verification

F7.1

(F7.1) Do you verify any forests information reported in your CDP disclosure?

Yes

F7.1a

(F7.1a) Which data points within your CDP disclosure have been verified, and which standards were used?

Disclosure module

F6. Implementation

Data points verified

To prove that firewood is renewable and traceable, we use our Monitoring Framework, to verify the sustainability attributes of how our suppliers and their farmers are managing deforestation risks. To prove that we comply with the Zero Deforestation Manifesto target on Board and paper used on Primary Packaging as causing no significant risk of deforestation on Primary forests, we use the Assurance framework that we designed and validated by a third party expert coupling the wood, pulp, and fibers' countries of origin with the holding of FSC or PEFC Chain of Custody certifications.

Verification standard

The Framework is an internal standard that aligns with international best practices and standards [mainly FSC and PEFC], and it is verified by a third party. It requires full chain of custody at a mill level and countries of origin for timber, pulp and fibers to be low risks according to our Risk Assessment which is based on the FSC national risk assessments and also validated by the third party.

Please explain

The proportion of tobacco we currently purchase that is cured at no risk of deforestation stands at approximately 100%. Monitoring and supplier engagement go hand in hand. To ensure fuel sources are sustainable, we support suppliers and farmers in planting trees to supply renewable firewood for tobacco curing. Suppliers report twice a year on their performance according to our Monitoring Framework, in addition a self-assessment and a third-party verification are performed annually.

Our Zero Deforestation Manifesto (ZDM) set the following target: Zero gross deforestation of primary and protected forest in the supply chain of paper and pulp-based material by 2025. Zero net deforestation of managed natural forest and no conversion of natural ecosystems in the paper and pulp-based products supply chain by 2030. For our paper and pulp-based products, we designed a risk assessment in 2021 that embeds the criteria of the National Risk Assessment (NRA) of the Forest Stewardship Council (FSC). We selected 17 criteria relevant to our paper and pulp-based supply chain and applied them to the list of countries from which we source. Results from this assessment are used to inform PMI's sourcing strategy and to identify those suppliers that require additional engagement to mitigate potential corruption risk. All our business partners must comply with our Responsible Sourcing Principles (RSP) which define expectations both for our suppliers, and their suppliers. We validate the adherence to the RSP engaging with them via our Supplier Due Diligence program, which in 2021 was enhanced by our partnership with EcoVadis and the Responsible Business Alliance, the largest industry coalition dedicated to social responsibility in supply chains. On a yearly basis, we collect traceability data from our supplier base as well as valid PEFC/FSC CoC certificates.

F8. Barriers and challenges

F8.1

(F8.1) Describe the key barriers or challenges to eliminating deforestation and/or conversion of other natural ecosystems from your direct operations or from other parts of your value chain.

Forest risk commodity

Timber products

Coverage

Supply chain

Primary barrier/challenge type

Value chain complexity

Comment

The use of firewood as fuel for tobacco curing are the areas of our supply chain with forest-related risks. In some countries, the supply chain for firewood as fuel for tobacco curing can be very informal, with tier 2, tier 3 or tier 4 suppliers. For example, some farmers collect firewood themselves, or purchase it from firewood vendors, who may obtain it from various producers or intermediaries. Given the difficulties to change local market practices, achieving traceability and ensuring sustainability present challenges. As we progress with the implementation of our Monitoring Framework and its verification by a third party, we expect these challenges to be addressed in the short to medium term.

Forest risk commodity

Timber products

Coverage

Supply chain

Primary barrier/challenge type

Cost of sustainably produced/certified products

Comment

Traceability exercise down to the expected granularity level is very complex. It requires extensive resources to compile and compute data in a precise and usable way. Also, in some cases, wood species, origins and proportional quantities used are considered proprietary by suppliers and are not shared.

Market dynamics affecting supply and demand of certified wood is also a barrier. With only a few percentage points of global forests being covered by third-party certification schemes due to the high complexity of these schemes' requirements, the mark up costs linked to materials made from certified wood remain budget demanding for large corporate having high demands.

F8.2

(F8.2) Describe the main measures that would improve your organization's ability to manage its exposure to deforestation and/or conversion of other natural ecosystems.

Forest risk commodity

Timber products

Coverage

Supply chain

Main measure

Investment in monitoring tools and traceability systems

Comment

Even if forest certification is a voluntary process, the costs for small forest holders can be prohibitive. Expanding collaborative group certificates, according to credible standards such as FSC, will be essential to expand certification and increase the availability of certified materials.

In order to improve our traceability and monitoring capabilities, we are investing in technological and innovative solutions, plus continuously exploring better geospatial monitoring systems that are available and internationally recognized. Aside from that, PMI is also leveraging on the engagement of our suppliers, to enhance the collection, analysis and validation of the traceability data that would serve the purpose of better managing inherent deforestation and/or conversion of other natural ecosystems risks laying in our supply chain.

F17 Signoff

F-FI

(F-FI) Use this field to provide any additional information or context that you feel is relevant to your organization's response. Please note that this field is optional and is not scored.

F17.1

(F17.1) Provide the following information for the person that has signed off (approved) your CDP forests response.

	Job Title	Corresponding job category
Row 1	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)

Submit your response

In which language are you submitting your response?

English

Please confirm how your response should be handled by CDP

	I understand that my response will be shared with all requesting stakeholders	Response permission
Please select your submission options	Yes	Public

Please confirm below

I have read and accept the applicable Terms